

NEPAL'S STRATEGIC FUTURE: FOLLOWING INDIA,
OR CHINA, OR MIDDLE ROAD

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Strategy

by

RANJIT THAPA, MAJOR, NEPAL ARMY
B.S., Tribhuwan University, Kathmandu, Nepal, 2005

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Name of Candidate: Major Ranjit Thapa

Thesis Title: Nepal's Strategic Future: Following India, or China, or Middle Road

Approved by:

_____, Thesis Committee Chair
Paul L. Anderson, M.A.

_____, Member
Gary J. Bjorge, Ph.D.

_____, Member
Joseph G. D. Babb, M.P.A, M.A.

Accepted this 10th day of December 2010 by:

_____, Director, Graduate Degree Programs
Robert F. Baumann, Ph.D.

The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

ABSTRACT

NEPAL'S STRATEGIC FUTURE: FOLLOWING INDIA, OR CHINA, OR MIDDLE ROAD, by Major Ranjit Thapa, Nepal Army, 214 pages.

Nepal, geo-strategically located between India and China, must have appropriate relations with both countries. Prior to 2006, Nepal's monarch maintained a generally balanced approach in dealing with India and China even though in practice Nepal had a closer relationship with India due to key factors, such as geography, socio-cultural closeness, and reliance on trade and transit through India. However, a great political transition occurred in Nepal during 2007, and since 2008, China has increased its activities within Nepal. This study addresses Nepal's strategic dilemma by looking at three policy options: lean towards India; lean towards China; or follow a middle road between these two powers. Through descriptive and analytical studies of government policies adopted by Nepal, India, and China, published books, and scholarly articles, this research analyzes Nepal's options in terms of the diplomatic-political, informational, military, and economic (DIME) instruments of national power and geographic factors. Nepal must preserve her hard-won position within this triangle carefully and wisely. She must carefully choose her future path. She must maintain a sharp focus on serving her national interests, promoting stability and prosperity, and preserving her sovereignty and independence while taking into consideration the interests of her two powerful next-door neighbors, China and India.

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ACRONYMS

CA	Constituent Assembly
CPA	Comprehensive Peace Agreement
CPI-M	Communist Party of India (Marxist)
CPN-M	Communist Party of Nepal (Maoist)
DIME	Diplomatic-Political, Informational, Military, and Economic
GDP	Gross Domestic Product
IRs	Indian Rupees
JVI	Joint Venture Industries
MW	Megawatt
NRs	Nepalese Rupees
SPA	Seven-political-party Alliance

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CHAPTER 1

INTRODUCTION

Nepal is a small Himalayan, landlocked country in South Asia, sandwiched between two giant neighbors--China and India. To the north, the Himalayas constitute a natural and mostly impassable frontier, and beyond them is the border with China. To the south, east and west, Nepal is hemmed in by India (see figure 1). Without an outlet to the sea, Nepal has been dependent on India for international trade and transit facilities.



Figure 1. Nepal and Bordering Countries

Source: Central Intelligence Agency, Map of Nepal, The World Fact Book: South Asia Nepal, <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> (accessed 23 April 2010).

Nepal emerged as a unified state over 200 years ago at a time when Britain was expanding her colonial rule in India.¹ Without surrendering her autonomy on internal

¹John Whelpton, *A History of Nepal* (Cambridge: UK: Cambridge University Press, 2005), abstract.

matters, Nepal received guarantees of protection from Britain against external aggression and interference. Nepal's relationships with India and China changed after India became independent in 1947, Mao Tse-tung declared the establishment of communist China in 1949, and the political situation in Nepal changed in 1951. A monarch had ruled the country since 1769, but from 1846 to 1950, though the monarch remained on the throne, effective political power was in the hands of the Rana family, who, acting as hereditary prime ministers, ruled the country. The hereditary Rana regime was abolished in 1951 and the monarch regained control of the government. This development was encouraged by the Indian government.

From 1951 to 1996, Nepal, generally tried to maintain a balanced relationship with both India and China. However, geography and traditional cultural, political, and economic ties made Nepal's relationship with India closer than her relations with China. To counterbalance these ties to India, Nepalese monarchs sometimes played the so called "China card."² The dynamics of Nepal's relationship with these two countries moved into a different environment after a Maoist insurgency began in Nepal in 1996.

When this insurgency began, it appeared to be anti-Indian, but in 2001 it was revealed that the Maoist were operating from bases in India.³ As for China, no official Chinese statement regarding Nepal's Maoist insurgency came until February 2006 when a Chinese Foreign Ministry spokesman said that China was "fairly concerned" about the

²Bhawna Pokharna, *India-China Relations: Dimension and Perspectives* (New Delhi: New Century Publications, 2009), 162.

³Saubhagya Shah, "A Himalayan Red Herring? Maoist Revolution in the Shadow of the Legacy Raj," in *Himalayan People's War: Nepal's Maoist Rebellion*, ed. Michael Hutt (Bloomington: Indiana University Press, 2004), 210.

political situation in Nepal.⁴ In November 2005, the Communist Party of Nepal-Maoist (CPN-M) and the seven-political-parties alliance (SPA) of Nepal reached a 12-point understanding to fight against the King's direct rule and to restore democracy. This understanding was reached in New Delhi with India's assistance and the Maoist leader, Pushpa Kamal Dahal, Prachanda, made his first public appearance in 10 years there in June 2006. Indian Prime Minister Man Mohan Singh had made the rare gesture of congratulating Prachanda within an hour of his election as Prime Minister on 15 August 2008.⁵ The Indian government supported the Maoist-led government when it was established in August 2008.

The dynamics of Nepal's relationship with either India or China cannot be studied separately because Nepal is strategically placed between these two countries and they both take more than a passing interest in what is going on in Nepal. The relationship between India and China is complicated. India was one of the first countries to recognize the People's Republic of China on 1 April 1950. Subsequently, they exchanged high-level visits, and shared warm relations, but these did not last. By the late 1950s, serious differences emerged, particularly over the un-demarcated border, and by 1962 the two countries were at war. Furthermore, relations deteriorated due to India's hosting of the Tibetan government in exile when it provided political asylum to Tibetan spiritual leader Dalai Lama in 1959. This war, the unresolved boundary, and the Tibetan issue continue

⁴Ali Riaz Riaz and Subho Basu, *Paradise Lost? State Failure in Nepal* (New Delhi: Adarsh Books, 2010), 166 and 171.

⁵Dhruba Adhiakry, "Nepal-India ties enter the Prachanda era," *Asia Times* online, 16 September 2008, http://www.atimes.com/atimes/South_Asia/JI16Df02.html (accessed 10 July 2010).

to dominate their relations even today. The level of tension between India and China naturally affects Nepal's relationship with both countries.

Dramatic political developments in Nepal in the years 2007-2008 have also led to changes in Nepal's interaction with both countries. Almost 240 years of monarchical rule was abolished, the country changed from a Hindu Kingdom into the secular Federal Democratic Republic of Nepal, a new Constituent Assembly (CA) was created, and in 2008 the Maoist came to power. Since these political developments, China has extensively increased its activities in Nepal⁶ using the diplomatic-political, informational, military and economic (DIME) instruments of national power.

Chinese actions since the political change of 2007-2008 have elicited differing opinions regarding Nepal's relationship with India and China from think tanks and policy analysts. As of 2010, Nepal is still busy managing its internal politics and has not been able to draft the new constitution mandated by the CA election held in April 2008. Some argue that the Maoist were brought into power by India, but now are moving towards China, and that India needs to reevaluate its relationship with Nepal, with whom its security is closely linked.⁷ Others argue that there has been a major shift in China's foreign policy towards Nepal since the Maoist ascended to power. China had earlier adopted a policy of "non-intervention" in the internal matters of Nepal and largely stayed

⁶Sanjaya Upadhyaya, "Beyond Tibet: China's Interest in Nepal has Acquired Larger Dimensions," http://www.peoplesreview.com.np/index.php?option=com_content&view=article&id=2803:beyond-tibet-chinas-interest-in-nepal-has-acquired-larger-dimensions&catid=58:articles&Itemid=77 (accessed 29 April 2010).

⁷Padmaja Murthy, "Time to Reassess Indo-Nepal Relations" Institute of Peace and Conflict Studies, 10 September 2009, <http://www.ipcs.org/article/south-asia/time-to-reassess-indo-nepal-relations-2965.html> (accessed 4 August 2010).

out of Nepalese internal politics. However, the demise of the monarchy and the ascendance of political parties have led China to reshape its Nepal policy.⁸ Within Nepal some argue for building closer ties with China because Nepal could gain enormously from China's rapid rise and spiraling economic growth.⁹

Primary and Secondary Research Questions

In this changing political and economic setting, Nepal must consider how to manage its relationship with its immediate neighbors India and China using the DIME instruments of national powers. It is up to Nepal to decide whether to maintain its current relatively close ties with India, implement a policy of equidistance from both India and China, or develop a closer relationship with China. The primary research question of this thesis is to determine which of these three paths would be most beneficial for Nepal. Should Nepal lean towards China, lean towards India, or try to be equally close to both of her large neighbors? In order to answer this primary research question, the secondary questions are: What is the history of Nepal's relationship with India and China prior to 2007? What are the significant developments in the triangular relationship between Nepal-India-China since 2007? What are the existing and potential key "areas of interest" from a geographic, and DIME approach that might lead Nepal to lean towards China or India?

⁸Nihar Nayak, "Nepal: New Strategic Partner of China?" Institute for Defense Studies and Analysis, 30 March 2009, http://www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina_NNayak_300309 (accessed 28 June 2010).

⁹Abanti Bhattacharya, "China and Maoist Nepal: Challenges for India," Institute for Defense Studies and Analysis, 23 May 2008, http://www.idsa.in/idsastrategiccomments/ChinaandMaoistNepal_ABhattacharya_230508 (accessed 26 April 2010).

Significance of the Study

Drawing upon descriptive and analytical studies of government policies adopted by Nepal, India, and China, published books and articles on Nepal's relationship with India and China and between India and China, recent documents of various analysis groups and think tanks, this thesis addresses the primary and secondary research questions. The findings will be significant for policy makers of Nepal as they formulate foreign and security policies regarding India and China. They will also help others realize the challenges and opportunities facing small and politically unstable countries like Nepal that are situated between two powerful neighbors with an ongoing rivalry and differing interests.

Assumptions

The following assumptions have been made to conduct this study: Nepal's relationships with both India and China will continue even if the relationship between India and China deteriorates. Second, it is assumed that Nepal will always seek to maintain its independence from both India and China.

Scope and Limitations

The research for this study will rely on materials available in the Combined Arms Research Library, through interlibrary loan, and from electronic sources. Research will be limited to an overview of significant events in Nepal's relationship with India and China prior to 1951 and a detailed description and analysis of key events and trends from 1951 to 2007. Only those parts of the relationship between India and China that show a direct link to Nepal's relationship with them will be examined. Moreover, access to the

relationship of Nepal with India and China, and between India and China, will be through open sources and electronic media. This thesis will depend both on primary and secondary sources.

Delimitation

The study neither describes nor analyzes relations between Nepal, India, and China and South Asian, Western, and European countries unless those relations bear directly on the thesis research questions.

Definition of Key Terms

British Raj: British dominion over India, which ended in 1947 when India gained her independence from Great Britain.

Comprehensive Peace Agreement (CPA): Peace agreement signed between the Government of Nepal and the Maoist insurgents in 21 November 2006. It formally ended the active (violent) part of the Maoist insurgency.

DIME: Diplomatic-political, informational, military, and economic instruments of national power. The policies of a country can normally be expressed in terms of DIME.

Free Tibet Movement: The movement conducted by people supporting Tibetan freedom in China. The supporters of this movement oppose direct Chinese intervention and the forceful occupation of Tibet by China since 1951.

Maoist: A member of the Nepalese Communist group who believe in Mao Tse-tung's communist ideology of violent revolution.

Rana Regime: The Rana Rulers, who placed Nepal under their feudal yoke for more than 100 years from 1846 to 1950. Jung Bahadura Rana was the first Prime Minister of the Rana Regime.

Seven-Party Alliance (SPA): Seven political parties of Nepal, headed by the Nepali Congress and the Communist Party of Nepal (United Marxist-Leninist), formed an alliance in November 2005 to fight against the King's direct rule in Nepal.

12-Point Understanding: The understanding reached by the SPA and the Maoist to fight against the King's direct rule in Nepal. This was agreed to in Delhi, India, on 21 November 2005.

1950 Treaty of Peace and Friendship: Treaty signed between Nepal and India in the aftermath of the independence of India from British rule in 1947. It provides a basis for Indo-Nepal relations and has 10 articles.

CHAPTER 2

LITERATURE REVIEW AND RESEARCH METHODOLOGY

Introduction

This chapter has two parts. Part one reviews the pertinent literature used for the study. Government policies, joint speeches, and joint statements are the primary sources that have provided current data on the subject of the study. A number of books and scholarly articles written on the history of Nepal, the political relationship of Nepal with India and China, the Maoist insurgency and its impact on Nepal's relationship with India and China, Sino-Indian relations, and the effects of Sino-Indian relations on the region will constitute the secondary sources of research. The analyses conducted by strategic study groups and comments by think tanks on the Maoist insurgency and political instability in Nepal from 1996 to 2006, Nepal's relationship with India and China during the insurgency and the political change of 2007-2008, and the growing activities of China in Nepal after the Maoist rise to power all provide further analysis on the subject matter for this study. Part two describes and discusses the research methodology applied in answering this study's primary and secondary research questions.

Part 1-Literature Review

The material for the review of literature is divided into three categories in order to more accurately reflect the organization of the research. The first section discusses government documents such as policies, and joint speeches-statements. The second section focuses on the literature related to Nepal's relations with China and India, and India-China relations in general. The third section includes the scholarly articles on the

Maoist insurgency and the political changes in Nepal, and Nepal's relations with China and India in the changed political setting.

Section 1: Government Policies, Joint Speeches, and Joint Statements

The policies of the Nepalese, Indian, and Chinese governments, official speeches and statements, and statistics account for a large portion of the primary sources relevant to the research. The *Joint Statement* between Nepal and the People's Republic of China in December 2009 states that the Chinese government is ready to continue to provide assistance to make a positive contribution in economic development. The statement further reveals that the continued and enhanced level of Chinese cooperation extended in the current transitional phase would be of additional significance. Both sides agreed to enhance various modes of connectivity--such as land routes and air services between the two countries to promote proximity and linkages, facilitate bilateral engagements and collaboration, further expand people-to-people contact and cultural exchanges, and promote contacts and exchanges between mass media, think tanks, scholars, and friendship groups with a view to promoting mutual understanding and friendship between the two countries. The Nepalese side reiterated that it would not allow any forces to use its territory to engage in any anti-China or separatist activities.¹⁰

The *Annual Policies and Programs* of the government of Nepal for the fiscal year 2009-2010, focuses on strengthening friendly and cordial relations with both India and China, and on not allowing Nepalese territory to be used against any neighboring

¹⁰Government of Nepal, "Speeches-Statements," <http://www.gov.np/news/metadata.php?ID=465&bread=speeches/Statements> (accessed 23 July 2010).

countries. It also states the intention to adopt policies that enhance foreign investment for economic development.¹¹

The *Joint Statement* released during an official visit of Nepal's Prime Minister Puspha Kamal Dahal to India from 14 to 18 September 2008, states that the prime ministers of both the countries agreed to review, adjust, and update the 1950 Treaty of Peace and Friendship, as well as other agreements. Further, both sides agreed to enhance the pace of economic development through the execution of mega projects, infrastructure development such as road, railways, and hydropower projects. Nepal also pledged to take further necessary measures to attract Indian public and private investment in Nepal.¹²

The Nepali Ministry of Foreign Affairs' document, *Bilateral Relations*, describes the age-old ties of history, culture, tradition, and religion between Nepal and India. It further explains that Nepal-China relations have always remained good and cordial. It states that the relationships of Nepal with India and China are multi-dimensional and that both China and India are helping Nepal through economic, informational, military, and other forms of activities.¹³ The Central Bureau of Statistics of Government of Nepal

¹¹Office of the Prime Minister and Council of Ministers, Policies and Programme of the Government of Nepal, <http://www.opmcm.gov.np/> (accessed 23 July 2010).

¹²Government of India, "Joint Declaration-Statement," <http://www.mea.gov.in/> (accessed 23 July 2010).

¹³Ministry of Foreign Affairs, Government of Nepal, "Bilateral Relations," <http://www.mofa.gov.np/foreignpolicy.php> (accessed 3 July 2010).

provides data related to Nepal and various other countries in terms of information sharing and trade relations.¹⁴

The Ministry of External Affairs of India *Foreign Relations Brief* focuses on the unique relationship of friendship and cooperation characterized by open borders and deep-rooted people-to-people contacts resulting from kinship and cultural ties, and the instrumental role of India in reaching a 12-point understanding between the SPA and the Maoist in Delhi in November 2005. It also states that India continues to be Nepal's largest trading partner and source of foreign investment. In fiscal year 2009, bilateral trade between Nepal and India accounted for 58.22 percent of Nepal's foreign trade and foreign investment from India was 43.17 percent of all foreign investment in Nepal. This publication further focuses on India's desire to cooperate with Nepal to harness energy by investing in hydro-power sector.¹⁵

India's Foreign Policy-50 Years of Achievement explains that India has played an instrumental role in assisting South Asian countries by contributing to a wide range of activities. The paper focuses on five principles that India adheres to in dealing with South Asian countries: First, with neighbors like Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka, India does not ask for reciprocity, but gives all that it can in good faith and trust. Second, no South Asian country should allow its territory to be used against the interests of another country of the region. Third, no country will interfere in the internal affairs of

¹⁴Government of Nepal, National Planning Commission Secretariat, Central Bureau of Statistics, Statistical Year Book 2007, http://www.cbs.gov.np/statistical_year_book_content.php (accessed 28 August 2010).

¹⁵Government of India, "Joint Declaration-Statement," <http://www.mea.gov.in/> (accessed 23 July 2010).

another. Fourth, all South Asian countries must respect each other's territorial integrity and sovereignty. And finally, each country should settle all their disputes through peaceful bilateral negotiations.¹⁶

The foreign Ministry of People's Republic of China's *Bilateral Relations*, states that China and Nepal have enjoyed over 1,000 years of friendly relations. The Ministry further writes that the leaders of the two countries jointly established a friendly and neighborly partnership for generations into the 21st century, after President Jiang Zemin paid a state visit to Nepal at the end of 1996, thus pushing the Sino-Nepalese friendly relations onto a new high.¹⁷

Section 2: Books

Leo E. Rose and John T. Scholz provide an analytical overview of Nepal's history, government, politics, and international relations in *Nepal: Profile of a Himalayan Kingdom*.¹⁸ The book explains the "special relationship" between India and Nepal established in 1950, and discusses the influence of India during Nepal's struggle to build a modern political system from 1950 to 1977. The book also provides a focused look at

¹⁶Embassy of India, "India's Foreign Policy-50 Years of Achievement," [http://www.indianembassy.org/policy/Foreign_Policy/fp\(intro\).htm](http://www.indianembassy.org/policy/Foreign_Policy/fp(intro).htm) (accessed 24 July 2010).

¹⁷Ministry of Foreign Affairs of the People's Republic of China, *Bilateral Relations, Nepal*, <http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/gjlb/2752/> (accessed 23 July 2010).

¹⁸Leo E. Rose and John T. Scholz, *Nepal: Profile of a Himalayan Kingdom* (Boulder, CO: Westview Press, 1980).

the impact and difficulties of Nepal's relationships with India and China in the aftermath of the 1962 border war, and the years following.

Nepal and Bhutan Country Studies, edited by Andrea Matles Savada, clearly explains India's increased influence over Nepal throughout the 1950s. However, at the same time, Nepal's dissatisfaction with India's growing influence began to emerge, and overtures to China were initiated as a counterweight to India.¹⁹ The book further details that, following the 1962 Sino-Indian border war, the relationship between Kathmandu and New Delhi thawed significantly. The significance of this book is its presentation of facts about Nepal's relations with India and China. It discusses India's policy reaction to Nepal when Nepal expanded its relations with China in order to counter India's growing influence, and China's looking for opportunities to safeguard its interest and counter India's primacy in Nepal through the period 1950 to 1990.²⁰

John Whelpton's, *A History of Nepal*, focuses on Nepal's history of the period since the overthrow of the Rana family autocracy in 1950-51. Whelpton vividly portrays Nepal as a country of extraordinary contrasts, which has been constantly buffeted throughout history by China and India. He further comments on Nepal's difficulty in balancing the interests of India and China in its foreign policy and India's influence in Nepal. He also details India close ties with Nepal's leading political party, the Nepali Congress, throughout the history of Nepal's political parties. The book explains the

¹⁹Andrea Matles Savada, ed., *Nepal and Bhutan Country Studies* (Washington: Federal Research Division of Congress, 1993), 180.

²⁰*Ibid.*, 186-187.

deepening crisis in Nepal during the period 1999-2003.²¹ The significance of this book is that it is the first widely available one-volume literary work in English spanning the whole of Nepalese history to appear for over a generation.²²

Himalayan People's War: Nepal's Maoist Rebellion, edited by Michael Hutt, provides historical, social, and political background on the Maoist insurgency in Nepal, which erupted in the late 1990s.²³ The book details how the political situation of Nepal came to the attention of Western news media with the highly publicized murders of the royal family in 2001.²⁴ The book further explains the Indian policy towards the Maoist insurgency in Nepal, and Nepalese relations with India, and western countries during the insurgency. The significance of the book is that it is the first comprehensive study of these events published in English, and the most thorough analysis of the Maoist movement.

Nischal Nath Pandey, in *Nepal's Maoist Movement and Implication for India and China*, explains that the unstable political situation created by the Maoist insurgency made India and China increase their influence in order to secure their interests. The Maoist insurgency started in Nepal in 1996 and their leaders were staying in India during

²¹Whelpton, 208-225.

²²Ibid., 211-217.

²³Michael Hutt, ed., *Himalayan People's War: Nepal's Maoist Rebellion* (Bloomington: Indiana University Press, 2004).

²⁴Ibid., 6-9.

the insurgency.²⁵ He explains in detail the Indian and Chinese position regarding the Maoist insurgency in Nepal.

The book *Nepal: Year of Decision* explains that the year 1950 marked the turning point in the history of Nepal when King Tribhuvan, joined the commoners in a “revolution” and liberated the country from the Rana regime with the help of India. He further explains that the main planks of Nepal’s foreign policy in the past, ever since King Mahendra took over power by dismantling the Parliamentary system in 1960, has been to maintain a balance between India and China, and seek Chinese sympathy when he felt his position threatened by the democratic parties whom he distrusted as being sympathetic with India. King Mahendra received support from China, all through his regime from 1960 to 1972.²⁶ The book further explains that China continued to show great interest in helping Nepal economically and provided substantial aid in the years following the Sino-Indian war of 1962. The book examines the impact of this war on Nepal’s relation with India and China.

The book, *Dynamics of Foreign Policy and Law: A Study of Indo-Nepal Relations*, explains India-Nepal relations between 1950 and 1996, and covers the treaties, bilateral agreements, and Joint communiqués in the political, security, and economic sectors between Nepal and India. The book details India and Nepal as probably the closest neighbors in existence anywhere, yet notes that they also share the largest number

²⁵Nischal Nath Pandey, *Nepal’s Maoist Movement and Implications for India and China* (New Delhi: Manohar, 2005).

²⁶D. P. Kumar, *Nepal: Year of Decision* (New Delhi: Vikas Publishing House, 1980).

of differences. Although they appear to have much in common, they tend to have difficulties in resolving many vital issues, including, border disputes, trade and transit issues, and matters relating to cooperation in the water sectors. The book also deals with India and Nepal not being able to successfully manage the process of change that has taken place in their relations since 1950.²⁷

The book, *India-Nepal Relations: The Challenge Ahead*, presents Nepal-India relations, security and political environment, water and energy issues, and trade and economic issues between Nepal and India from the viewpoint of political instability during the Maoist insurgency.²⁸

John Rowland's book, *A History of Sino-Indian Relations: Hostile Co-existence*, provides a clear picture about the origin of Nepal-India relations in the changed political environment of 1950. Rowland argues that in order to discourage Chinese aggression and to forestall Beijing's claims, India and Nepal hurriedly concluded two new pacts: First, they signed a treaty of friendship, and second, they drafted a trade agreement.²⁹ Rowland further argues that with the occupation of Tibet and the extension of a military road network southward to the Himalayas, the buffer zone had shifted to the Himalayan border states, where China now competes with India for primacy. The book provides an excellent and clear description of India-China relations, explains the genesis of the

²⁷Surya P. Subedi, *Dynamics of Foreign Policy and Law: A Study of Indo-Nepal Relations* (New Delhi: Oxford University Press, 2005).

²⁸Rupa, *India Nepal Relations: The Challenge Ahead* (New Delhi: Rupa, 2004).

²⁹John Rowland, *A History of Sino-Indian Relations: Hostile Co-existence* (Princeton: D. Van Nostrand Company, 1967), 146.

animosity between these two countries, and describes the roles of India and China in Nepal since 1950-1962.³⁰

Barbara Crossette investigates India's attitude towards its small neighbors, India's views about China, and the impact of the relations between India and China on their neighbors in *India: Facing the Twenty-First Century*. Crossette explains that China is India's biggest neighbor and a persistent concern for policymakers. The Indian government does not want to say anything that could be misinterpreted in Beijing, or could cause the Chinese to start talking about Kashmir. Yet Indians read or see virtually nothing about China and the Chinese in the media.³¹ She comments about India playing a dominant role in its neighboring countries like Nepal, Sri Lanka, Bangladesh, Maldives and Bhutan. Crossette's text also clearly described the situation of 1989-1990, when New Delhi imposed tough economic sanctions in Nepal.³² The significance of this book is its critical analysis of Indian policy towards Nepal, trying to impose terms and conditions based on India's interests for countering Chinese influence

Bhawna Pokharna, in *India-China Relations: Dimensions and Perspectives*, explains the deeply-rooted Chinese interests in Nepal since 1950, which emerged when China proposed that Kathmandu accept a proposal for the establishment of the "confederation of Himalayan states" that would consist of Tibet, Nepal, Bhutan, the North East frontier of India, all functioning under the leadership of China. Pokharna

³⁰Ibid., 144-155.

³¹Barbara Crossette, *India: Facing the Twenty-First Century* (Bloomington: Indiana University Press, 1993).

³²Ibid., 111-112.

discusses the close relationship maintained by the king of Nepal with China especially during the period 1959 to 1962, and how Nepal's "China card," has remained embarrassing for India, thus generating tensions throughout the South Asian sub-continent. The book views Nepal as trying to maintain policies of equidistance with China and India, but notes that after 1962 Nepal gradually developed a closer relationship with China.³³ The weakness of the book is its focus on India-China and South Asia relations from an Indian perspective. Pokharna does seem to demonstrate bias towards Nepal, where any extent of relations between Nepal and China, lesser in extent than with India, is viewed by India as a threat, or as Nepal playing its "China card" against India.

Martin Jacques explains that increasing relations of China with South Asian and Asian countries have generated both possibilities and challenges in South Asia in *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World*.³⁴ He further argues that for over fifty years, relations between India and China have been at best distant and suspicious; at worst antagonistic, even conflictual. The conflict over the borders which led directly to the Sino-Indian war in 1962 when China inflicted a heavy military defeat on India still rankles to this day. Far from exercising unchallenged hegemony in South Asia, India finds itself confronted by Pakistan, Bangladesh, Nepal, and Myanmar, all of which China has deliberately befriended as a

³³Pokharna, 163.

³⁴Martin Jacques, *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World* (London: Penguin Books, 2009).

means of balance against India, with these countries embracing China as a way of offsetting India's dominant position in South Asia.³⁵

Waherguru Pal Singh Sidhu and Jing-dong Yuan, in the book *China and India: Cooperation and Conflict?*, explains that the China threat continues to dominate the Indian strategic horizon. The China factor has been a critical and constant element in the Indian security equation since the 1962 Sino-Indian war, through the first Chinese nuclear test in 1964, and up to the assertion by India's defense minister, George Fernandes, that China is "potential threat number one."³⁶ The book is significant because it clearly explains all the existing areas of conflict in Sino-Indian relations, describes areas that are likely to be triggered in the future due to the increasing military buildup of both India and China, and examines the impact of all this is going to have in the South Asian region.

The book, *The India-China Relationship: What the United States Needs to Know*, explains that the Chinese initiatives in Asia in the recent past are an effort on Beijing's part to undercut New Delhi's natural dominance in South Asia. The book further states that, "While China professes a policy of peace and friendliness towards India, its deeds are clearly aimed at the strategic encirclement of India in order to marginalize India in Asia and tie it down to the Indian sub-continent."³⁷ The book addresses issues about

³⁵Ibid., 339.

³⁶Waherguru Pal Singh Sidhu and Jing-dong Yuan, *China and India: Cooperation and Conflict?* (London: Lynne Rienner Publishers, 2003), 4.

³⁷Francine R. Frankel and Harry Harding, eds., *The India-China Relationship: What the United States Needs to Know* (New York: Columbia University Press, 2004), 138.

India and Chinese strategic interests and moves in the region, discusses areas of conflict between India and China and related impacts on the Asian and South Asian regions, and reviews the available options and capability of India to counter Chinese encirclement.

Section 3: Articles and Current News Sources

Bruce Vaughan in “Nepal: Political Developments and Bilateral Relations with the United States” writes that New Delhi has viewed Nepali instability as a potential catalyst for the destabilization of India’s own troubled northeastern states, and suggests that Maoist success in Nepal may also have a negative impact on India’s own Maoist problem, which has increased in recent years. The article further asserts that Nepali leadership has long resented Indian economic influence, has sought to establish a more independent foreign policy, and has, at times, “played the China card” in seeking to counterbalance what it considers undue pressure from India. Beijing has contributed economic aid to Nepal, and in September 2008, China approved Nepali Rupees (NRs)³⁸ 100 million in military assistance to Nepal during a visit to China by the Defense Minister of the Maoist-led government. It also states that Nepal will continue with a “one China policy” and a hard line on Tibetan refugees as the CPN-M and other major political parties will likely be reluctant to offend China.³⁹

³⁸Nepali currency is called Nepali Rupees. The foreign exchange rate is 1 US\$=74.25 Nepalese Rupees and 100 Indian Rupees = 160.15 Nepalese Rupees, Nepal Rastra Bank, Foreign Exchange Service, <http://nrb.org.np/fxmexchangerate.php?YY=&&MM=&DD=> (accessed 12 September 2010).

³⁹Bruce Vaughn, “Nepal: Political Developments and Bilateral Relations with the United States,” Federation of American Scientists: Congressional Research Service, <http://www.fas.org/sgp/crs/row/RL34731.pdf> (accessed 31 July 2010).

India has launched a plan to spend US\$ 361 million over the next several years on roads and rail links in the plain areas of Nepal bordering India, writes Jyoti Thottam in “Nepal: Caught between China and India.” He further elaborates that China, recently increased its annual aid to Nepal by 50 percent to about US\$ 22 million, but the jockeying for influence between China and India may be undermining Nepal’s fragile democracy. He argues that, India, for its part, maintains that it has always had “very deep and vast relationship” with Nepal, but the character of that relationship has changed dramatically over the last few years, since Nepal’s Maoist came to power. The Maoist leader, Pushpa Kamal Dahal, has cultivated close diplomatic ties with China. The article explains that China’s main interest in Nepal has always been led by its concern over Tibet, and Beijing’s involvement with Nepal grew much more intense after the March 2008 ethnic uprising against Chinese rule, which deeply embarrassed the Beijing government on the eve of its expensive Olympic Games.⁴⁰

Ishaan Tharoor in “Nepal’s New PM makes the rounds,” argues that the Maoist led Prime Minister Puspha Kamal Dahal eulogizes the Chinese path to prosperity, and has referred to India in the past as an “expansionist” enemy. His government unflinchingly cracked down on Tibetan activists, further evidence, to some in India, of Beijing’s growing influence over Kathmandu. He further explains that, ironically, China backed the monarchy to crush the Maoist during the civil war, but Beijing--unburdened by the divisive rancor which grips India’s democracy--has nimbly changed course, expanding its

⁴⁰Jyoti Thottam, “Nepal: Caught between China and India,” *Time Magazine*, 2 March 2010, <http://www.time.com/time/world/article/0,8599,1967859,00.html> (accessed 25 July 2010).

already significant involvement in Nepal's hydropower sectors, while promising rail links between Kathmandu and Lhasa.⁴¹

Nepal's Prime Minister Madhav Kumar Nepal assured Indian businessmen that his government would take every possible step to enforce a security plan to protect investments and uninterrupted manufacturing operations, besides providing a "feel-at-home" environment for Indian entrepreneurs during his visit to India in 8 August 2009, writes Mahwish Hafeez in "Nepal Prime Minister's visit to New Delhi."⁴² He further argues that India was uncomfortable with the Maoist government when they started developing relations with China.⁴³

Chietigj Bajpae, in an article "The Panda and the Peacock," writes that the additional elements of instability between India and China have arisen from both states' relations with third parties, namely China's "all-weather relationships" with Pakistan and Myanmar, and its growing friendships with Bangladesh, Nepal, and Sri Lanka. He further argues that the support from all of India's neighbors, except Bhutan, to admit China as an

⁴¹Ishaan Tharoor, "Nepal's' New PM Makes the Rounds," *Time Magazine*, 22 September 2008, <http://www.time.com/time/world/article/0,8599,1843256,00.html> (accessed 25 July 2010).

⁴²Mahwish Hafeez, "Nepal Prime Minister's visit to New Delhi," The Institute of Strategic Studies, Islamabad, http://www.issi.org.pk/photos/NEPAL_PRIME_MINISTER_VISIT.pdf (accessed 25 July 2010).

⁴³*Ibid.*

observer to the South Asian Association for Regional Cooperation in 2005 also drew the quiet consternation of New Delhi.⁴⁴

Bishnu Pathak, in an article “Nepal-India Relations: Open Secret Diplomacy,” writes about the implication of the Treaty of Sugauli of 1816, the Treaty of Peace and Friendship of 1950, the 1965 Arms Assistance Agreement, and the 1996 Mahakali Treaty for the Nepal-India relationship. He comments that the treaties have provided considerable leverage to India to exert its influence in Nepal. In the beginning of the People’s War in Nepal, the Maoist were very antagonistic towards India, but they changed their initial stand gradually when they received considerable support from the Indian establishment. He further explains that China is equally exerting its influence in Nepal to create a situation that, in his opinion, is more visibly observed, especially after the political change of 2007. He elaborates that China suspects that Nepal is a fertile ground for protests about Tibet by the activists of the Dalai Lama, who has been taking shelter in India since 1959.⁴⁵

Nepal proved itself unwillingly to allow a repeat of the mass Tibetan demonstrations that were held in Nepal from March to September 2008, writes Justin Vela in “China-Nepal ties reach new heights.”⁴⁶ Vela further writes that the ties between

⁴⁴Chietigj Bajpae, “The Panda and the Peacock,” World Security Institute, *China Security* 3, no. 4 (Autumn 2007): 103-123, http://www.wsichina.org/%5Ccs8_6.pdf (accessed 27 July 2010).

⁴⁵Bishnu Pathak, “Nepal-India Relations: Open Secret Diplomacy,” <http://www.transnational-perspectives.org/transnational/articles/article492.pdf> (accessed 3 July 2010).

⁴⁶Justin Vela, “China-Nepal ties reach new heights,” *Asia Times* online http://www.atimes.com/atimes/South_Asia/KC17Df03.html (accessed 2 June 2010).

the two countries have been increasing in 2009. He further comments that China views establishing closer relations with Nepal as an important step in its competition with India for regional influence. However, Nepal's interest in expanding relations with China is more complicated. The country has long sought to balance the interests of India and China, the two powers it lies between.⁴⁷

Abanti Bhattacharya in "China's Inroads into Nepal: India's Concerns" writes that Nepal constitutes an important element of China's South Asia policy. The article explains that during each of the high-level meetings China has extracted assurances from Nepal that it adheres to the one-China principle, acknowledges Tibet as an inalienable part of China, and will ensure that no anti-China activity is allowed on its soil. Underscored in China's South Asia policy is the strategy to marginalize India's influence in Nepal. The article further comments that marginalizing India would not only allow China to dominate South Asia, but would also provide easy access to Nepal's roughly 83,000 megawatts of hydroelectric potential.⁴⁸

Sanjaya Upadhyaya writes in "Beyond Tibet: China's interest in Nepal has acquired larger dimension," about massive Chinese activities in Nepal after the political change, that are making India worry. The article explains that hardly a month passes without a

⁴⁷Ibid.

⁴⁸Bhattacharya, "China's Inroads into Nepal: India's Concern," Institute for Defense Studies and Analysis, http://www.idsa.in/idsastrategiccomments/ChinasInroadsintoNepal_ABhattacharya_180509 (accessed 5 May 2010).

high-profile Chinese political, military, economic or cultural delegation arriving in Kathmandu.⁴⁹

Summary of Literature Review

Nepal has maintained cordial relationships with China and India. The dynamics of Nepal's relationships with India and China changed after the political change in the region vis-à-vis political change in Nepal. The hereditary Rana Regime was abolished and monarch regained the control of the government. Prior to 1947, Nepal had maintained relationships with British rulers in India and Tibet. Since 1950 to 2006, Nepal maintained its relationships with India and China when the monarch was ruling the country, but in 2007, the monarchial system was abolished, and Nepal was declared a Federal Democratic Republic ending 10-year Maoist insurgency.

The geographical and socio-cultural affairs of Nepal have also remained influential factors in Nepal's relationships with India and China. The relationship of Nepal with India has remained close due to geographical proximity and socio-cultural closeness. Nepal has also tried to maintain a closer relationship with China. Like India, China is equally trying to engage Nepal and these engagements have increased in the recent years, mainly after the political change in Nepal.

The rivalry between India and China has been affecting Nepal's relationships with both countries since the 1962 border war between them. As the rivalry continues even today, the relationship has become further complicated as both countries try to exert influence to counter balance each other's interests.

⁴⁹Upadhya, "Beyond Tibet."

Part 2-Research Methodology

This part outlines the research methodology used to collect data and information related to Nepal's relationship with India and China prior to 2006, and developments in the Nepal-India-China triangular relationship since 2006. It also describes the methods used in analysis. The study is a critical analysis of whether Nepal should lean towards India, or China, or follow a middle road between them in the context of the recent political transition. The basic method for answering the question is the analysis of existing and potential key issues in Nepal's relationships with India and China from historical perspectives and in the contexts of the changed political settings, using the DIME framework. In addition to the DIME framework, the factor of Nepal's geographical position will also be used for analysis.

Analyzing published works and material posted on internet websites that deal with Nepal-India-China political relations, the political change of Nepal in 2007-2008, and Chinese and Indian actions in Nepal after the political change, this thesis attempts to provide the answer of the primary and secondary research questions.

The research is academic research and the method used for data collection is document-based research. This is a descriptive study with a focus on creating a detailed picture by describing and analyzing available documents, government policy, speeches-statements by government key leaders, and other views related to the research problem. The majority of sources prior to 2006 will be based on published books, but the sources since 2006 will be drawn mostly from information available through scholarly articles, news, analysis published in journals, magazines, and on websites.

In order to better analyze the research question, the period under study is divided into two blocks. The first block is Nepal's relationship with India and China prior to 2006 when a monarch was ruling the country. The second block is the period 2006 to 2010, which includes the political transition of 2007-2008 and developments in the Nepal-India-China triangular relationship since then. The study uses qualitative analysis methodology to describe the available literature.

CHAPTER 3

OVERVIEW OF NEPAL'S RELATIONSHIP WITH INDIA PRIOR TO 2006

This chapter deals with Nepal's relationship with India prior to 2006. Part one deals with the time prior to 1951 because many political developments took place in the region around that time. India secured independence from British rule in 1947, the hereditary Rana regime, who ruled Nepal for 104 years, was abolished, and the monarch regained the control of the government in 1951. The second part deals with the period of time between 1951 and 2006 when monarchs ruled Nepal.

Part 1-Nepal's Relationship with India prior to 1951

Nepal's relationship with India prior to 1951 was based on the 1816 Treaty of Sugauli, and the 1923 Treaty of Peace and Friendship concluded with the British East India Company in India and Great Britain, respectively. Nepal fought a war with the British East India Company from 1814 to 1816 for a brief period that checked a Nepalese drive for westwards expansion.⁵⁰ A peace treaty, formally signed by Nepal in March 1816 included territorial concessions by which Nepal lost almost one-third of its territory on the east, south, and the west (see figure 2).⁵¹ This treaty remained the basis of the relationship until the Treaty of Friendship and Peace was signed in December 1923. This treaty enhanced the relationship between Nepal and the British Raj until 1947. In view of longstanding friendly relations that included, Nepal sending troops to India to help

⁵⁰Lawrence James, *Raj: The Making and Unmaking of British India* (London: Little, Brown, 1997), 73.

⁵¹Pathak, "Nepal-India Relations: Open Secret Diplomacy," 2.

Britain maintain control, the British government agreed that Nepal would be free to import goods and military hardware from and through India, which was restricted under the Treaty of 1816.⁵² Nepal further strengthened its relationship with the British Raj by providing troops in World War II.



Figure 2. Nepal's Size before Anglo-Nepal war of 1814-1816

Source: Telegraphnepal.com, "Prachanda Raises Greater Nepal Demand with Full Force," <http://telegraphnepal.com/uploaded/others/5-quest.jpg> (accessed 6 July 2010)

Nepal's relationship with the newly-independent India developed when Nepal assisted militarily, on the request of India, to maintain law and order in 1947.⁵³ As religious violence erupted between the Hindu and Muslim communities in many places in India due to the split of British India into India and Pakistan, a contingent of 19

⁵²Subedi, 189.

⁵³The Nepalese Army, 32.

Battalions led by a major general was deployed in different places throughout India, to help stabilize the situation.⁵⁴

Part 2-Nepal's Relationship with India Since 1951 to 2006

A friendly relationship with the newly-independent was formally established by concluding a Treaty of Peace and Friendship in July 1950. The relationship during the 1950s was also shaped by the establishment of a Communist government in China in October 1949. After the occupation of Tibet in 1951, China stated that "Tibet is China's palm and Nepal, Bhutan, Sikkim, Ladakh, and the Northeast Frontier Agency of Assam⁵⁵ are the five fingers. Now that palm has been restored to China, the fingers should go with it."⁵⁶ This created Nepal's, and especially India's, suspicions about China's future intentions.

Nepal's relations with India further developed under a new regime when the hereditary Rana regime was abolished, and the king's power was reinstated by the active political involvement of India in February 1951.⁵⁷ Subsequently, the relations were developed in economic and military areas as well. The Nepal-India Economic Cooperation Program was launched in 1951. The objective of the program was to supplement the efforts of the Government of Nepal in national development. As

⁵⁴Ibid.

⁵⁵Sikkim was a Himalayan Kingdom before it was absorbed into India in 1974, Ladakh and the Northeast Frontier Agency of Assam belongs to India.

⁵⁶Rowland, 144.

⁵⁷Ibid., 145.

described by the Indian Embassy in Kathmandu, “To give a concrete shape to this vision of development cooperation, the Government of India set up the Indian Aid Mission in Kathmandu in 1954.”⁵⁸ Military relations developed when an Indian military mission was established in Nepal in 1952, to train the Nepalese Army, and Indian security checkpoints were established along the Nepal’s northern areas bordering Tibet in 1954.⁵⁹

Nepal’s relations with India deteriorated in the years following the King Mahendra’s accession to the throne in 1955, after the death of his father, King Tribhuwan. The first parliamentary elections were held in February 1959, but King Mahendra aborted the democratic experiment, and took full control of the state into his own hands in December 1960.⁶⁰ King Mahendra started reducing Nepal’s dependence on India and developed closer relations with China.

The Sino-Indian War of 1962 affected Nepal-Indian relations, when Nepal and India concluded an Arms Assistance Agreement in 1965.⁶¹ The agreement made India a major supplier of military hardware to the Nepalese Army. India also agreed to maintain and replace the equipment of Nepalese Army. In 1969, relations became stressful when Nepal asked India to withdraw Indian security checkpoints stationed in Nepal, and

⁵⁸Indian Embassy, Kathmandu, Nepal, Economic Cooperation, <http://www.indianembassy.org.np/economic-cooperation> (accessed 4 September 2010).

⁵⁹Kumar, *Nepal: Year of Decision*, 198.

⁶⁰Whelpton, 86.

⁶¹Subedi, 9.

demanded the abrogation of the 1950 treaty.⁶² India withdrew the security checkpost, but no action was initiated regarding the treaty.

Nepal strengthened economic relations with India by signing a Treaty of Trade and Transit in August 1971. However, those relations became stressful after a few years when Nepal demanded separate treaties for trade and transit. In the mid-1970s, Nepal pressed for substantial amendments to the 1971 Trade and Transit Treaty, which was due to expire in 1976.⁶³ India also continued to provide economic assistance to Nepal. The relationship improved, but not steadily, over the next decade.

In 1975, King Birendra Bir Bikram Shah Dev proposed that Nepal be recognized internationally as a “zone of peace.”⁶⁴ In New Delhi's view, if the King's proposal did not contradict the 1950 treaty and was merely an extension of nonalignment, it was unnecessary; if it was a repudiation of the special relationship, it represented a possible threat to India's security and could not be endorsed. In 1984, Nepal repeated and continually promoted the proposal in international forums with Chinese support. By 1990, it had won the support of 112 countries, but it did not materialize.⁶⁵

Nepal-India relations deteriorated in 1988. In 1978, India agreed to have separate trade and transit treaties, satisfying a long-term Nepalese demand, but in 1988, when the

⁶²Kumar, *Nepal: Year of Decision*, 198.

⁶³Savada, *Nepal and Bhutan Country Studies*, 181.

⁶⁴*Ibid.*

⁶⁵James Heitzman and Robert L. Worden, eds., “India: A Country Study.” Washington: GPO for the Library of Congress, 1995, <http://countrystudies.us/india/126.htm> (accessed 4 September 2010).

two treaties were up for renewal, India insisted on negotiating a single unified treaty in addition to an agreement on unauthorized trade, which Nepal saw as a flagrant attempt to strangle its economy. Nepal's refusal to accommodate India's wishes on the transit treaty caused India to call for a single trade and transit treaty.⁶⁶ Thereafter, Nepal took a hard-line position that led to a serious crisis in India-Nepal relations.

Apart from the trade and transit issues, there were also other factors contributing to the crises. In 1987, India urged expulsion of Nepalese settlers from neighboring Indian states, and Nepal retaliated by introducing a work permit system for Indians working in Nepal. In addition to that, Nepal's agreement to purchase weapons from Beijing was a matter of serious concern for India. India perceived these developments as deliberately jeopardizing its security. New Delhi imposed tough economic sanctions, which further hastened the slide into political crisis.⁶⁷ Nepal undertook a major diplomatic initiative to present its case on trade and transit matters to the world community.

In the aftermath of the 1989-1990 crises, a political movement emerged in Nepal demanding a multi-party democratic system. India supported the political movement of Nepal. In June 1990, a Joint Kathmandu-New Delhi communiqué was issued which settled the existing differences in Nepal-India relations.⁶⁸

Several other developments took place in the Nepal-India relationship in the post 1990 period. Indian Prime Minister Chandrasekhar visited Nepal in February 1991, and

⁶⁶Ibid.

⁶⁷Crossette, 111.

⁶⁸Ibid.

announced his government's assistance to Nepal in transportation, flood control and some other projects.⁶⁹ The trade and transit treaties were revised. Again in October 1992, the Indian Prime Minister P. V. Narashima Rao visited Nepal, and emphasized that Nepal would be the first beneficiary of India's liberalization policy. In 1994, Nepal's Prime Minister Man Mohan Adhikari proposed to India to change the Treaty of 1950, but he expressed that, "Nepal was totally in support of India's security concern, and Nepalese territory would not be used for anti-India activities."⁷⁰ In 1996, Nepal's Prime Minister Sher Bahadur Deuba reiterated, "Nepal will never pose a security threat to India."⁷¹

Nepal maintained diplomatic, informational, economic, and military relations with India throughout the insurgency. In the beginning of the insurgency, although, the Maoist were anti-Indian by ideology and in practice, but later they received support from India.⁷² On 1 February 2005, when King Gyanendra imposed direct rule in Nepal, India did not fully support this because India felt that it was done without getting formal consent from the Indian establishment.⁷³ When the people's movement started from 6-24 April 2006 against the King's direct rule, India did not encourage the people's movement

⁶⁹Pokharna, 169.

⁷⁰Ibid.

⁷¹Ibid.

⁷²Shah, 210.

⁷³Pathak, 10.

because India was determined to support the three-pillar theory, i.e., parliamentary parties, the Maoist, and the former King Gyanendra.⁷⁴

India played an instrumental role in bringing the Maoist and the political parties of Nepal to a 12-point understanding that brought political change in Nepal. The agreement was concluded in New Delhi on 21 November 2005, which mainstreamed the Maoist into the political process, ending 10 years of armed conflict.⁷⁵

Summary

This chapter has outlined Nepal's relationship with India prior to 1951, and the period between 1951 and 2006. Due to Sino-Indian rivalry, both India and China have adopted a policy of "move" and "counter move" in Nepal. At the end of 2006, it appeared India was trying to maintain dominant role in Nepal by applying all instruments of national power, in its desire for Nepal to respect and act according to India's interests. The close relationship formerly maintained by Nepal's dethroned monarch with China, pushed India to maintain close ties with major political parties within Nepal, and furthermore, India's role was found to be instrumental in bringing the armed conflict to an end. The next chapter provides an overview of Nepal's relationship with China prior to 2007.

⁷⁴Ibid.

⁷⁵Nayak, "Impending Crisis in Nepal," Institute for Defence Studies and Analysis, http://www.idsa.in/idsacomments/ImpendingCrisisinNepal_nnayak_290410 (accessed 28 June 2010).

CHAPTER 4

OVERVIEW OF NEPAL'S RELATIONSHIP WITH CHINA PRIOR TO 2006

This chapter deals with Nepal's relationship with China prior to 2006. Part one deals with Nepal-China relations prior to 1951, and includes Mao Tse-tung establishing communist China in 1949, occupying Tibet in 1951. The second part deals with the period between 1951 and 2006 when monarchs ruled Nepal.

Part 1-Nepal's Relationship with China Prior to 1951

In the eighteen century, Nepalese adventurism in Tibet led to Chinese intervention in favor of Tibet.⁷⁶ Nepal and Tibet fought a war in 1786, mainly due to the coinage problem.⁷⁷ Nepal invaded Tibet in 1791, when the provision on trade, according to the agreement of the 1786 war, was violated by Tibet.⁷⁸ A treaty signed between Nepal and Tibet in 1792 initiated formal diplomatic relations between Nepal, Tibet, and China, and that remained as a framework in maintaining these relationships until 1854.

In 1855, Nepal again attacked Tibet when some of the provisions of 1792 treaty were not fully respected by Tibet.⁷⁹ Peace was finally restored with a treaty signed in March 1856, which remained the basis of Nepal's relations with Tibet and China for the

⁷⁶Savada, *Nepal and Bhutan Country Studies*, 185.

⁷⁷The Nepalese Army, 23.

⁷⁸*Ibid.*, 24.

⁷⁹*Ibid.*, 27.

next century. The treaty outlined maintaining mutual relationships on the matters of trade and commerce, and living under harmonious conditions.

Nepal's relations with China developed into a complex situation in the early twentieth century. By 1910, apprehensive about British activity in Tibet, China had reasserted its claim to sovereign rights in Tibet.⁸⁰ In a note to the Government of British-India on 28 October 1910, China referred to Nepal and Bhutan as its vassals.⁸¹ Nepal broke relations with China when Tibetans, taking advantage of the Chinese revolution of 1911, drove the Chinese out.⁸² On 17 January 1911, the Government of British-India bluntly replied that Nepal was not a vassal state, but was wholly independent of China. Any attempt by Beijing to exercise influence over Nepal and Bhutan could not possibly be tolerated.⁸³ In 1912, Nepal warned the Chinese representative at Lhasa that Nepal would help Tibet attain independent status as long as it was consistent with British interests. In 1939, when Mao Tse-tung wrote that the "imperialists" had stolen many of China's territories, specifically included in the list were Nepal and Bhutan. Beijing had also described parts of Nepal as irredentist Chinese territories on several maps that it had published.⁸⁴

⁸⁰Savada, *Nepal and Bhutan Country Studies*, 185.

⁸¹Pokharna, 161.

⁸²Savada, *Nepal and Bhutan Country Studies*, 185.

⁸³Pokharna, 161.

⁸⁴*Ibid.*

Part 2-Nepal's Relationship with China from 1951 to 2006

Soon after the occupation of Tibet in 1951, Chinese leaders began to talk of liberating Nepal and forming a Himalayan federation of all Mongol people under China's leadership.⁸⁵ China could not realize this idea, however, because it found itself involved in the Korean War. But the Chinese idea obviously created a suspicion regarding China's intentions which affected Nepal's relationship with China for at least a few years. Beijing had also started to ignore the provisions of the 1856 treaty by curtailing the privileges and rights accorded to Nepalese traders by imposing restrictions on Nepalese pilgrims. The break between Kathmandu and Beijing continued until 1955, when diplomatic relations were re-established with China in August 1955.⁸⁶

Nepal expressed its desire to establish diplomatic relations with China in a new context in 1954. The *Panch Sheel*⁸⁷ agreement between India and China on Tibet, concluded in 1954, made Nepal's need to renegotiate its own relationship with China more urgent.⁸⁸ Nepal's views came only a few days after the conclusion of the Sino-Indian pact in April 1954, when Nepal's Foreign Minister announced that his government

⁸⁵Ibid.

⁸⁶Savada, *Nepal and Bhutan Country Studies*, 186.

⁸⁷*Panchsheel* or the Five Principles of Peaceful Coexistence are a series of agreements between the People's Republic of China and India. They are; Mutual respect for each other's territorial integrity and sovereignty, Mutual non-aggression against anyone, Mutual non-interference in each other's internal affairs, Equality and mutual benefit, and Peaceful co-existence. "India: End of Panch Shila," *Time Magazine*, <http://www.time.com/time/magazine/article/0,9171,827071,00.html> (accessed 10 July 2010).

⁸⁸Rowland, 147.

would soon raise with Beijing the matter of a new agreement, and also promised that if the Chinese “approach us formally, we will do the right thing at the right time.”⁸⁹ Nepal’s willingness to renew its relationship with China, obviously visible, was influenced by India. Indian Prime Minister Jawaharlal Nehru was widely believed to have discussed Nepal with his Chinese hosts when he visited Beijing in October-November 1954. It was reported that Chinese Premier Chou En-lai had agreed to continue Indian primacy in Nepal, but had made clear China’s intention to establish diplomatic relations with Kathmandu.⁹⁰

In August 1955, a Joint communiqué on the establishment of diplomatic relations was concluded between Nepal and China. The two governments agreed to establish diplomatic relations and to the exchange of ambassadors.⁹¹ In addition to diplomatic relations, on 20 September 1956, Nepal and China signed an agreement to maintain friendly relations and the matters pertaining to trade. Under the agreement, Nepal recognized China’s sovereignty over Tibet.⁹² The agreement also abrogated all treaties and documents that had existed in the past between Nepal and China, including those between Nepal and Tibet.⁹³

⁸⁹Ibid., 148.

⁹⁰Ibid.

⁹¹R. K. Jain, *China South Asian Relations, 1947-1980* (Atlantic Highland, NJ: Humanities Press, 1981), 285.

⁹²Savada, *Nepal and Bhutan Country Studies*, 186.

⁹³Jain, 288.

Nepal's relation with China was further strengthened by bilateral visits and the signing of a new treaty. Nepal's Prime Minister B. P. Koirala visited China in April 1960 and signed a Treaty of Peace and Friendship with China. The treaty, signed a year after Tibet's failed uprising and the Dalai Lama's flight into exile in India, has been the fundamental document to maintaining the relations between these two countries through the present day. Chinese Premier Zhou-En-Lai visited Nepal in April 1960, followed by the opening of the Chinese Embassy in Kathmandu, and the Nepalese Embassy in China in September 1961.⁹⁴

King Mahendra visited China in October 1961 and signed a border agreement. By this agreement, Nepal gained Chinese acceptance of its traditional boundary.⁹⁵ Nepal's Ministry of Foreign Affairs, wrote in 2010: "The two Governments resolved border issues amicably in 1961, and have been conducting joint inspection of the border at regular intervals."⁹⁶ China extended help to assist in developing the infrastructure in Nepal in the same year. King Mahendra, during the visit to China, signed an agreement to build the Kathmandu-Kodari highway connecting Nepal and Tibet. Bhawna Pokharna writes that upon the signing of the agreement, Mao Tse-tung told Nepali delegation, "Once the roads are opened, India may be a bit more respectful towards you."⁹⁷

⁹⁴Pokharna, 163.

⁹⁵Rowland, 153.

⁹⁶Ministry of Foreign Affairs, Government of Nepal, Bilateral Relations, 2010.

⁹⁷Pokharna, 163.

Nepal's relationship with China was strengthened in the aftermath of the Sino-Indian War of 1962. Nepal reasserted its neutrality during the conflict. Nepal continued to support China's application for membership in the United Nations.⁹⁸ In the post-1962 period, there was a substantial expansion of the amount of foreign aid available in Nepal, especially from China, which was, in part, a reflection of Nepal's geostrategic role in the Sino-Indian dispute.⁹⁹

King Birendra visited China in December 1973 and made appraisal of the achievements scored by the People's Republic of China under the leadership of Mao. They agreed to continue their efforts to strengthen friendly relations and cooperation between the two countries while taking measures to further develop trade and economic co-operation.¹⁰⁰ China supported the Nepalese criticism of India's nuclear test at Pokharan in year 1974, and supported King Birendra's proposal of Nepal as a "Zone of Peace."¹⁰¹ China continued its policy to encourage Nepal's policy of equidistance between New Delhi and Beijing. The high-level bilateral visits continued throughout the 1980s, and these visits witnessed considerable Chinese economic assistance to Nepal in infrastructure developments.

Nepal concluded an agreement to purchase weapons from China in 1988, which escalated political crises in Nepal. Nepal's relations with China continued to develop

⁹⁸Savada, 186.

⁹⁹Pokharna, 163.

¹⁰⁰Jain, 416.

¹⁰¹Pokharna, 166.

throughout the 1990s. During the Maoist insurgency, China's supported Nepal's Government effort to fight against the insurgency.¹⁰² In 2001, the two countries signed the Memorandum of Understanding on informational activities, tourism cooperation, and air service.¹⁰³

Not many activities took place in Nepal-China relations in the years 2003-2005 when Maoist violence was at its peak. In November 2003, the four CPN-M supporters were caught at the Nepal-China border, Khasa, and charged with smuggling weapons from Tibet to Nepal.¹⁰⁴ During the King's direct rule in Nepal from February 2005 to April 2006, Beijing supported the King's regime.¹⁰⁵ Pokharna writes that Chinese arms sales continued, and Amnesty International accused China of being one of the worlds' most secretive and irresponsible arms exporters. China sold rifle grenades to Nepal's security forces at a time when there was a mass uprising against the monarchy by the people in April 2006.¹⁰⁶

China, who was keeping a distance from the ongoing political situation of Nepal, appealed to all of the political parties to "narrow their difference through dialogue" in

¹⁰²Pandey, 155.

¹⁰³Pokharna, 170.

¹⁰⁴Bishnu Raj Upreti, Nicole Topperwien, and Markus Heiniger, *Peace Process and Federalism in Nepal: Experiences, Reflections and Learning* (Kathmandu: South Asian Regional Coordination Swiss National Centre of Competence in Research North-South, 2009), 37.

¹⁰⁵Ministry of Foreign Affairs, Government of Nepal, Bilateral Relations.

¹⁰⁶Pokharna, 172.

February 2006.¹⁰⁷ Chinese comments regarding the political situation came only after the 12-point understanding was agreed between the Maoist and the SPA to fight against the king's direct rule in November 2005. The extent of Nepal's relations with China was low throughout the insurgency until 2005. The relations continued to grow after the Maoist joined parliament, and signed a CPA with the SPA-led governments in November 2006. Mr. Tang Jiaxuan, the State Councilor of China and Wu Dawei, Vice Foreign Minister, visited Nepal in November 2006, and expressed their strong and continuous support to Nepal, despite the changes in Nepal's political situations. Likewise, Deputy Prime Minister and Minister for Foreign Affairs of Nepal K. P. Sharma Oli, visited China, reiterating that the new Government of Nepal would insistently support China on the issue of Taiwan, Tibet, and other issues of China's core interests.¹⁰⁸

Summary

At the end of 2006, it appeared that China was trying to distance itself from Nepal's domestic political situation. In the mean time, China maintained a close relationship with Nepal, especially in providing economic help and remaining close to their monarch. It appeared that much of the Chinese activities were directed towards counter-balancing the influence of India, rather than focusing in the political transformation of Nepal. The following chapter describes the Nepal-India-China triangular relationship within a changed political context.

¹⁰⁷Riaz and Basu, 171.

¹⁰⁸Embassy of the People's Republic of China, Nepal, 5 September 2007, <http://np.china-embassy.org/eng/ChinaNepal/t362330.htm> (accessed 4 September 2010).

CHAPTER 5

THE NEPAL-INDIA-CHINA TRIANGULAR RELATIONSHIP FROM 2006 TO 2010

Nepal's relations with China and India continued in the changed political context. China appeared to be more active after the political change of 2007-08. In January 2007, Li Tieying, China's Deputy Speaker of National People's Congress paid a visit to Nepal that has strengthened the exchanges and cooperation between the parliaments of the two countries. According to the Air Service Agreement of 2001 between two countries and in addition to one air line link opened in 2004, the China Southern Airlines also started operating air services between Chinese city Guangzhou and Kathmandu since February, 2007.¹⁰⁹

China asked Nepal's government to sign a "Peace and Friendship Treaty" and submitted a draft to the Government of Nepal in the changed political context on 27 February 2009. The Chinese special envoy Hu Zhengyue held a bilateral meeting at the Ministry of Foreign Affairs and submitted the draft-proposal of the treaty. Quoting the treaty, China's Foreign Ministry said that they want to sign that draft between the two governments at the visit of Prime Minister Prachanda in China in early May 2009.¹¹⁰ But no evidence supports signing of such treaty. Pathak, writes "the treaty shall call for China not to attack Nepal and to respect sovereignty and territorial integrity of Nepal, as Nepal recognized the "One China" policy admitting in practice that Tibet was an inalienable part of China and Nepal would not allow that her territory be used for anti-Chinese

¹⁰⁹Pokharna, 172.

¹¹⁰Pathak, 7.

activities.”¹¹¹ China submitted the draft to Nepal only few days after Pranab Mukherjee, the Indian Foreign Minister stated in Indian Parliament that India and Nepal will sign an extradition treaty soon.¹¹²

A multi-layered engagement has evolved between Nepal and China in the recent years. Chinese activities increased significantly in the diplomatic front after the political change. In fact, twelve high-level Chinese delegations, visited Nepal in the course of 2008-2009. During this visits, China has repeatedly assured economic, technological, and military aid to Nepal.¹¹³ The delegates from India visited seven times during the same time period.¹¹⁴ Compared to its action during previous governments, China was more active towards the changing political scenario in Nepal. Similarly, mid-level Maoist leaders from Nepal also visited China many times. Regarding the number of Chinese diplomatic delegation RSN Singh writes in Indian Defense Review that there have been 28 official delegations from China to Nepal ever since Maoist have come to power. In the first half of 2009 there have been nine Chinese delegations and only four Indian. Singh further writes, as per the sources in Nepal’s Army, the number of unofficial Chinese delegations is even more.¹¹⁵

¹¹¹Ibid.

¹¹²Ibid.

¹¹³Nayak, “Nepal: New Strategic Partner of China?”

¹¹⁴Pathak, 7.

¹¹⁵RSN Singh, “Nepal: The Ticking Time-Bomb,” *Indian Defense Review* 24 no. 2 (May 2009), <http://www.indiandefencereview.com/2009/05/nepal-the-ticking-time-bomb.html> (accessed 25 July 2010).

Chinese informational activities have steadily increased in the changing political situation. China has promoted China study centers in Nepal. China Radio International has launched a local frequency-modulated radio station in Kathmandu.¹¹⁶

China also provided double the amount of military assistance in 2008. In September 2008, China announced military aid worth US\$ 1.3 million, the first such assistance to the Maoist government in Nepal.¹¹⁷

On the economic front, China has doubled the amount of economic aid since 2009 which was limited to almost US\$ 150,000 until 2008. China has also expressed its willingness to build a highway linking Nepal with China's massive internal railway system.¹¹⁸ Nepal assured China that it will not allow any activity against China in its territory.

In December 2009, China agreed to provide military aid for the supply of "non-lethal" military hardware including logistics and training to the Nepalese Army. A memorandum of understanding regarding the Chinese aid was signed between the head of the visiting Chinese delegation, Maj. General Jia Jialing, and the acting chief of the Nepalese Army, Toran Jung Bahadur Singh, at the Nepal Army Head Quarters.¹¹⁹

¹¹⁶Bhattacharya, "China's Inroads into Nepal."

¹¹⁷Ibid.

¹¹⁸Ibid.

¹¹⁹Nepalnews.com, "China offers Rs 220m military aid to Nepal," 16 December 2009, <http://www.nepalnews.com/main/index.php/news-archive/1-top-story/2933-china-pledges-20-m-yuan-military-assistance-to-nepal.html> (accessed 4 September 2010).

India was the first country to congratulate the Maoist Prime Minister Pushpa Kamal Dahal Prachanda within an hour of his election as a Prime Minister. With the congratulatory message came Indian Prime Minister Man Mohan Singh's wish "to meet you in the near future and receive you in India as our guest at your earliest convenience."¹²⁰ Not the least, India's role was instrumental in the conclusion of 12-Point Understanding, which mainstreamed the Maoist in the political process by abandoning 10-years long armed conflict in 2006 and led to the elections of CA in 2008. The newly elected prime minister received a congratulatory note from China, too.

A tradition in Nepal is for the prime minister to pay his first official visit to India after being elected. However, Prachanda broke this tradition and visited China first on 24 August 2008, after becoming the first prime minister of the Federal Democratic Republic of Nepal.¹²¹ Prime Minister Prachanda during his visit to China assured his Chinese counterpart, Hu Jintao, of Nepal's commitment to the "One China" policy and vowed not to allow any anti-China activity on Nepal's territory.¹²²

Prime Minister Prachanda paid a five-day official visit to India from 14 September 2008 at the invitation of Indian Prime Minister. Prachanda appreciated the positive support extended by the people and Government of India throughout the peaceful

¹²⁰Adhikary, "Nepal-India ties enter the Prachanda era."

¹²¹Ibid.

¹²²Country Review, South Asia, Institute of Defence Studies and Analysis, http://www.idsa.in/TWIR/8_5_2008_Nepal (accessed 28 June 2010).

political democratic transformation in the country. Similarly, the Government of India expressed full support to the peaceful political and democratic transition in Nepal.¹²³

India's political support to the Maoist government did not last long. The Maoist tried to use the "China card" to counter-balance Indian influence. They neither hid their suspicion of India, nor concealed their desire to play the "China card" against India. Moreover, Nepal's Maoist linkages with the Indian Maoist remain a constant source of worry for India. Interestingly, there has been an increasing attempt by China in recent years to engage the government, the political parties, and the people of Nepal. All this has raised Indian concern regarding the Maoist and Nepal.¹²⁴ When Prime Minister Prachanda was trying to dismiss the Army Chief General Rookmangud Katawal, India did not express any official comments on the situation, but the Indian ambassador exercised diplomatic initiative and urged the Prime Minister not to remove the Chief of Staff of the Army.¹²⁵

The new Prime Minister, Mr Madhav Kumar, Nepal paid a five-day official visit to India in 18 August 2009. The visit resulted in the Indian government's pledge of assistance of NRs 32 billion for Nepal. The first President of the Federal Democratic Republic of Nepal paid the first state visit to India in February 2010. India announced to

¹²³Government of India, Ministry of External Affairs, Joint Press Statement on official visit of Nepal's Prime Minister Pushpa Kamal Dahal to India, 14-18 September 2008, <http://www.mea.gov.in/mystart.php?id=530214187> (accessed 23 July 2010).

¹²⁴Nayak, "Impending Crisis in Nepal."

¹²⁵Telegraphnepal.com, "Why India is Shielding Nepal Army Chief Katawal," 2 May 2010, http://www.telegraphnepal.com/news_det.php?news_id=5326 (accessed 23 April 2010).

spend US\$ 361 million over the next several years on roads and rail links in the plain areas of Nepal.¹²⁶ India also announced that it will resume the supply of military hardware to Nepal which it had stopped following the royal takeover in 2005.

Summary

This chapter outlined the Nepal-India-China triangular relationship since 2006. It appears that India is likely to continue its primacy in Nepal by staying actively involved in Nepal's domestic affairs, so that Nepal will not expand its link with China, or other countries during their transitional phase. It further appears that India's role has been advantageous to Nepal during the political transformation, but in the mean time, this involvement excited China, causing China to increase its DIME activities in Nepal. China has been trying to keep the Maoist close, which they believes would maintain considerable respect to China's policy interests as evident after 2008. The subsequent chapter will explain the current state of Nepal-India-China relations.

¹²⁶Thottam, "Nepal: Caught between China and India."

CHAPTER 6

EXPLAINING THE CURRENT STATE OF NEPAL-INDIA-CHINA RELATIONS

General

This chapter explains the current state of Nepal-India-China relations by using DIME framework. In addition to DIME, it also describes the geographical setting of Nepal. The collected data, facts, and figures will be explained in five parts:

Part 1 will describe the Geographical setting of Nepal.

Part 2 will explain various treaties, agreements, and issues pertaining to the diplomatic relations of Nepal with India and China.

Part 3 will identify and explain the informational issues.

Part 4 will describe war, treaties, security cooperation, and conflicts pertaining to the military relations between Nepal, India, and China.

Part 5 will identify and explain the economic treaties, trade and transit issues, and economic cooperation of Nepal with India and China.

Part 1: Geographical Setting of Nepal

Nepal, sandwiched between two Asian giants--China and India, traditionally has been characterized as a “root between two stones.”¹²⁷ Its shape is roughly rectangular, about 650 kilometers long and about 200 kilometers wide, and comprises a total of 147,181 square kilometers of land. It is slightly larger than the state of Arkansas.¹²⁸ A

¹²⁷S. C. Bhatt, *The Triangle Nepal-India-China: A Study of Treaty Relations* (New Delhi: Gyan Publishing House, 1996), 29.

¹²⁸Savada, “Nepal: A Country Study.”

landlocked country, surrounded by India on three sides and by China's to the north, Nepal is separated from Bangladesh by an approximately 15-kilometer wide strip of India's state of West Bengal (see figure 3). Nepal is almost totally dependent on India for transit facilities and access to the sea, that is, the Bay of Bengal, even for most of the goods coming from China. Such a confined geographical position is hardly enviable.

For a small country, Nepal has great physical diversity, ranging from the Terai--northern rim of the Gangetic Plain situated at approximately 70 to 300 meters above sea level in the south--to the 8,848 meter high Mount Everest, in the north.¹²⁹ Nepal is divided into three distinct regions: the Mountain region, the Hill region, and the Terai region. The Mountainous region, which lies above the altitude of 4,877, because of its geography and climatic conditions, is the most sparsely populated region compared to other two and it accommodates 7.3 percent of the total population.¹³⁰ The Hill region, in contrast to the Mountain Region, is relatively densely populated and represents 44.3 percent of the population. The Terai (plain) region, being an extension of the northern plains of India accounts for 23.1 percent of total land area of the country and accommodates 48.4 percent of population.¹³¹

¹²⁹Ibid.

¹³⁰Government of Nepal, Central Bureau of Statistics, Population, http://www.cbs.gov.np/Year%20Book%202007/frame_CBS/new3.html (accessed 2 September 2010).

¹³¹Vidya Bir Singh Kansakar, "Nepal-India Open Border: Prospects, Problems and Challenges," Democracy Nepal, http://www.nepaldemocracy.org/documents/treaties_agreements/nep_india_open_border.htm (accessed 4 September 2010).



Figure 3. Geographical Location of Nepal

Source: US Department of State, Background Note: India, <http://www.state.gov/r/pa/ei/bgn/3454.htm> About Nepal, (accessed 4 September 2010).

The population in the Terai region is increasing at a faster rate compared to the other two regions (see table 1). One reason for this faster growth is internal migration. It can be estimated that in the census of 2010 (which has yet to be published), the Terai, will have more than 50 percent of the total 29 million¹³² population of Nepal. The geographical features of Nepal show that movement in the south is highly accessible, whereas movement in the north, bordering China, is much less accessible due to the northern high Himalayan ranges and rugged terrain.

¹³²US Department of State, Country Profile, Nepal, <http://www.state.gov/r/pa/ei/bgn/5283.htm> (accessed 26 August 2010).

Table 1. Growth Trends of Nepal's Population

Region	1952-1954	1961	1971	1981	1991	2001
Mountain	-	-	9.9%	8.7%	7.8%	7.3%
Hill	64.8%	63.6%	52.5%	47.7%	45.5%	44.3%
Terai	35.2%	36.4%	37.6%	43.6%	46.7%	48.1%

Source: Created by author using data from Government of Nepal, National Planning Commission Secretariat, Central Bureau of Statistics, Population, http://www.cbs.gov.np/Year%20Book%202007/frame_CBS/new3.html; Vidya Bir Singh Kansakar, "Nepal-India Open Border: Prospects, Problems and Challenges," Democracy Nepal: A Gateway to Nepal's Politics and Civil Society, http://www.nepaldemocracy.org/documents/treaties_agreements/nep_india_open_border.htm (accessed 4 September 2010).

Trade and Transit Routes

Nepal-India

To get international access via land outlet, the nearest seaport to Nepal is 1,127 kilometers away in Calcutta, India. Nepal could potentially use some of Bangladesh's ports, but Indian Territory separates Nepal from Bangladesh. This makes Nepal virtually dependent on India for her access to the sea and international transit. In other words, geography dictates Nepal-India relationship. Nepal, given its shape, geography, and the state of economic development, needs several transit routes for its trade and communications.

It is worth noting here that there remain some areas in Nepal that cannot be reached by rail or road from other parts of the country without going through India's territory. In cases of natural disaster such as floods in the southern plain areas, there remains no alternative means to reach another place within Nepal without using Indian Territory. This has been experienced several times in the past. Thus, Nepal suffers from two geographical handicaps: it is landlocked, and it is mountainous. Because of this

situation, there seems a clear need for several outlets not only for exports and imports, but also for the livelihoods of some of the population, and this has remained one of the existing and potential key “areas of interest” in Nepal’s relations with India.

The development of numerous transit points with India emerged at different periods after 1951.¹³³ At least 15 transit routes are in use to reach Calcutta seaport, under the 1978 transit treaty, and India seems obliged under the Barcelona Statute¹³⁴ to grant Nepal use of all the 15 routes even in the absence of a transit treaty.¹³⁵ The geographical setting has facilitated the use of 27 routes for mutual trade between Nepal and India. There are a total of six immigration points for the entry and exit of nationals from the third countries along the Nepal-India border, and these are connected by road.

Nepal-China

Nepal has only two trade routes with China. One route is linked with China’s closest communication center Khasa by road transport, which is 130 kilometer’s distance from Kathmandu. Another road under construction is via Rasuwagadi-Kerung. The distance from Lasha to Kerung is almost 1,000 kilometers, and the distance from Kerung to Rasuwa of Nepal is almost 22 kilometers. The mountainous nature of terrain and

¹³³Kansakar, “Nepal-India Open Border.”

¹³⁴The international convention of 1921 established the right of access to the sea and facilitate transit transport for landlocked countries. The United Nations, Transit Transport Issues in Landlocked and Transit Developing Countries, Series, No. 18, <http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/UN-Landlocked.pdf> (accessed 29 August 2010).

¹³⁵Subedi, 104-05.

weather factor also bears considerable significance for smooth road communication between Nepal and China.

Nepal and China have only two immigration points along the border. They are Kodari, with road connections from Kathmandu, and Nara Nangla in Humla, with mule track from Simikot.¹³⁶ Tribhuvan International Airport in Kathmandu is the only immigration point for foreign nationals coming by air. There are several passes along the mountains in the Nepal-China border which are not officially manned, through which people of both countries travel around, on seasonal basis.

The road link between Nepal and China started in 1961, when an 80 kilometer road, Araniko Highway, linking Nepal's capital Kathmandu with Khasa on the Nepal-China border in Tibet was constructed by China. The second road link, Sybrubesi-Rasuwagadi, is under construction. This small stretch of road, just 10.5 miles from the Chinese border to the Nepalese town of Sybrubesi, is costing China almost US\$ 20 million. Joanna Jolly, a BBC news correspondent, states that “it is an important investment because this mountain pass not only connects Tibet to Nepal, but it is also the most direct land route to India’s capital, New Delhi.”¹³⁷ There is an old Chinese saying, “To get rich, build roads first.”¹³⁸ When this road is ready, it will not only increase the economy of the area, but will also increase the flow of Chinese and Nepalese tourists and

¹³⁶Kansakar, “Nepal-India Open Border.”

¹³⁷Joanna Jolly, “Highway will bring Nepal and Tibet ‘in from the Cold’,” *BBC News*, 27 January 2010, http://news.bbc.co.uk/2/hi/south_asia/8480637.stm (accessed 27 July 2010).

¹³⁸*Ibid.*

businessmen. In an interview, Chinese ambassador to Nepal, Qiu Guohong, spoke to the *Nepali Times* media;

Chinese side is upgrading the infrastructure in Zhangmu Pass and the surrounding road, and is positively considering initiating construction of the dry port near Tatopani in the Nepali side as early as possible. The Syabrubesi-Rasuwigadi road is now under construction under a Chinese grant. After the completion of this road, the Chinese side will push for the establishment of Kyerong Pass, which will mark the inception of the second trade corridor between China and Nepal.¹³⁹

The regulation of the existing Araniko Highway between Nepal and China has been affected by mountainous terrain, especially in the monsoon seasons due to soil erosion and landslides. In early September of this year, due to heavy rainfall, the road traffic on the highway was completely blocked and it took several days to reopen it.¹⁴⁰ Similar situations are likely to appear in the future because it is difficult to construct necessary preventive infrastructure on the roadside and heavier cost is also another factor.

Border Issues with India and China

The total boundary of Nepal is 2,926 kilometers, out of which it shares 1,236 kilometers with China, and 1,690 kilometers with India.¹⁴¹ The ruggedness of the terrain along the Nepal-China boundary line is clearly revealed by its length, while the Nepal-

¹³⁹*Nepali Times*, "Nepal and China have win-win ties," Qiu Guohong, Chinese Ambassador to Nepal, Issue no. 448 (April 2009), 24-30, <http://www.nepalitimes.com.np/issue/2009/04/24/Interview/15892> (accessed 2 September 2010).

¹⁴⁰*The Himalayan Times*, "Mudslide Blocks Highway," 3 September 2010, <http://thehimalayantimes.com/fullNews.php?headline=Mudslide+blocks++highway&NewsID=256320> (accessed 9 September 2010).

¹⁴¹Central Intelligence Agency, *The World Fact Book*, South Asia, Nepal, <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> (accessed 3 September 2010).

India boundary which runs along three sides of Nepal is only 1,690 kilometers, 454 kilometers longer than the Nepal-China boundary. The length of the Nepal-China boundary is based on map measurements.¹⁴² Nepal and China resolved their border issues but Nepal and India has a noticeable border dispute.

Nepal-India

There has remained a border dispute between Nepal and India. According to the Treaty of Sugauli of 1816, the river Kali is the western boundary of Nepal with India. The boundary river, Kali, is delineated by Article Five of the treaty. It says “the Rajas of Nepal renounces for himself, his heirs, and successors, all claim to or connection with the countries lying to the west of the river Kali and engages never to have any concern with those countries or the inhabitants thereof.”¹⁴³ So the place where the river Kali originates is the north-western corner border limit of Nepal with India and China as tri-junction. The Indian side has now claimed the artificially-formed pond as the source of the Kali River, and about one and a half kilometer long canal as the mighty Kali River.¹⁴⁴

The issue of Kalapani, a territory in the north-western part of Nepal bordering India has remained a relatively significant issue in terms of the border dispute between Nepal and India. The encroachment of the border has placed Kalapani on the Indian side,

¹⁴²Kansakar, “Nepal-India Open Border.”

¹⁴³Buddhi Narayan Shrestha, “Kalapani Belongs to Nepal: The North-Western Border of Nepal,” Border Nepal, <http://bordernepal.wordpress.com/2006/11/20/kalapani-belongs-to-nepal/> (accessed 20 August 2010).

¹⁴⁴Ibid.

resulting in the loss of 62 square kilometers of territory for Nepal.¹⁴⁵ The Indian interest on that area has been due to the Lipulek, a strategic pass to reach Tibet. Meanwhile, India has maintained a contingent of armed forces at Kalapani since 1960 and during the war with China, India built permanent structures with bunkers, as an intrusion of the Nepalese territory.¹⁴⁶ Nepalese officials, at the local level have reported the issue to the government often, mentioning that the Nepalese territory of Kalapani has been encroached on by the Indian Army, and they have erected some structures there. But the issue was ignored during the Panchayat era to mainly sustain the Panchayat system of government in Nepal.

There are several areas along the Nepal-India border where “no man’s land” has been encroached on both sides. Specifically, there are 53 disputed and encroached areas along the Nepal-India boundary.¹⁴⁷ Out of the 26 districts of Nepal bordering India, the map indicates 22 districts having encroachment issues; the only four remaining districts having no boundary problems are Baitadi, Bara, Mahottari and Dhanusha.¹⁴⁸ Recently, both governments have mandated that their district authorities on both sides of the Nepal-India border provide information on the status of their respective borders in order to oversee and prevent encroachment and damage to the boundary.¹⁴⁹

¹⁴⁵Ibid.

¹⁴⁶Ibid.

¹⁴⁷Kansakar, “Nepal-India Open Border.”

¹⁴⁸Ibid.

¹⁴⁹Ibid.

India has claimed that no major border dispute exists between Nepal and India, but the fact that border disputes remain has been an accepted view by various high-ranking Indian officials. They have not only accepted the existence of border disputes, but have also accepted the presence of security forces in that area. Ved Prakash Malik, a retired Chief of Staff of the Indian Army, states that,

I am aware of the border problem near Lipulek Pass, which is often raised in the Nepalese media. This issue has two aspects that need to be remembered. Firstly, this is not a bilateral problem. It is a trilateral problem that involves China as well. Secondly, there has never been any problem on the ground. The people and security forces in the area have always maintained cordial relations, as if there were no problem. My impression is that the issue gets articulated and highlighted in the media to obtain political publicity.¹⁵⁰

Nepal and India have tried to resolve their border dispute by open dialogue. During the visit of the Indian External Affairs Minister, Jaswant Singh, to Kathmandu on 11 September 1999, a joint communiqué was issued, and the problem of Kalapani was mentioned. They instructed the joint working group of the Nepal-India Joint Technical Level Boundary Committee to analyze the facts in an efficient manner for the demarcation of the western sector including the area of Kalapani, which is in controversy between the two sides. They also provided instructions to complete the work in a timely basis.¹⁵¹ In spite of the efforts made by the Joint Working Groups of both the countries, they have not yet reached a decision to finalize the working material, which could then be used to demarcate the western border of Nepal.

¹⁵⁰Ved Prakash Malik, "India-Nepal Security Relations" in *India-Nepal Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa: 2004), 83.

¹⁵¹Shrestha, "Kalapani Belongs to Nepal."

Nepal-China

The demarcation line of the Nepal-China boundary had been a problem in the past, because more than 90 percent of the frontier runs through high altitudes with rocks and snow, glaciers, and ice fields which are entirely uninhabited. Nepal and China concluded a boundary agreement on 21 March 1960 stating that both countries have respected and continue to respect the existing traditional and customary boundary line.¹⁵²

Population Migration Issues

Nepal's border with India and China has mainly socio-cultural, migration, and economic implications. Socio-cultural similarities on either side of the international border, a universal phenomenon, are more pronounced in the case of the Nepal-India border, because such ties have been enhanced by an open border with no restrictions on the movement of people on either side. In addition, ethnic and linguistic similarities exist between the residents along the Nepal-India border both in the plains and hills of the east, west, and south. The open border has naturally promoted social and cultural interaction among the nationals of both sides through matrimonial relationships as well. Socio-cultural similarities exist along the Nepal-China boundary as well due to some of the similarities in the population living in Nepal's northern areas and Tibet mainly due to the Buddhist culture.

There has been a large number of out-migration of people from Nepal to various countries but India has remained the main destination. The 1991 Census of Nepal recorded that the absentee population from Nepal to India constituted 89.2 percent of the

¹⁵²Jain, 307.

total migrants, though this phenomenon is changing in the recent years.¹⁵³ Although some Nepali people are migrating to countries in Europe, America, Far East Asia, and the Middle East, India remains the first choice for a large illiterate or lowly literate, unskilled and marginal population of rural Nepal, which consists of almost 80 percent of the whole population of Nepal, still remains migrating to India. More than four-fifth of above said 89.2 percent absenteeism from Nepal remained concentrated in four states of India: Uttar Pradesh, Bihar, Assam, and West Bengal.¹⁵⁴

From 2001, as the internal armed conflict in Nepal intensified, the flow of migrants from Nepal to India has increased. According to the Asian Centre for Human Rights, from 1996, an estimated 350,000 to 400,000 Nepalese have been internally displaced from their villages, and many make their way into India. One record in late December 2004 put the figure at 200 Nepalese crossing the border every hour.¹⁵⁵ Had the displaced people no access to India, the Internally Displaced People camps may have brought attention to the prevailing humanitarian crises in Nepal.

The census of 2001 revealed that the number of emigrants during the 1991 to 2001 period were 7, 62,181. Persons immigrating to India constituted nearly 68 percent of the total emigrants, followed by Saudi Arabia with 8.9 percent. People migrating to

¹⁵³Raju Bhattra, "Open borders, closed citizenship: Nepali labor migrants in Delhi," International Migration, Multi-local Livelihoods and Human Security: Perspectives from Europe, Asia and Africa, 5, Panel 5, 30-31 August 2007, Institute of Social Studies, The Netherlands, <http://www.iss.nl/Cross-cutting-themes/Migration/Panel-5> (accessed 6 September 2010).

¹⁵⁴Ibid., 3.

¹⁵⁵Ibid., 4.

China's Special Administrative Region Hong Kong accounted for 1.6 percent.¹⁵⁶

Nepalese people migrating to Hong Kong has been largely because of the Nepalese people settled there when British Gurkha Regiments served in Hong Kong before it was handed by the Great Britain to China in July 1997.

Citizens of China and India have been living in Nepal for many years. The population censuses of 2001 showed 102,468 Indian citizens, and 1,344 Chinese citizens out of the total 116,571 foreign citizens residing in Nepal. Indian citizens living in Nepal account for 87.95 percent of the total foreign citizens compared to 1.15 percent Chinese citizens.¹⁵⁷

Nepali population living in the areas close to Nepal-China border has a difficulty to get access into border towns of China. One notable feature of Nepal-China border is the complete absence of border check posts, except at the Kodari border. Most of the border check posts are located at a distance of more than one day's walk from the actual border on either side. The movement of the border people living within a distance of 30 kilometers on either side of the border has been regulated with the provision of multiple entry permits.¹⁵⁸ However, this provision has not been able to serve the needs and purposes of the border people who wish to pursue trades or visits on the other side. Most

¹⁵⁶Ibid., 6.

¹⁵⁷Government of Nepal, Central Bureau of Statistics, Population Monograph, <http://www.cbs.gov.np/Population/Monograph/Chapter%2014%20%20International%20Migration%20and%20Citizenship%20in%20Nepal.pdf> (accessed 27 August 2010).

¹⁵⁸Kansakar, "Nepal-India Open Border."

of the places intended for visiting for trade and social relations lie far beyond the limit of 30 kilometers.

In order to tackle this problem, during the renewal of 1966 Trade Agreement on 2 May 1986, emphasis was laid on identifying areas of movement, and fixing of the exact settlements rather than the 30-kilometer distance on either side. However, the survey for the identification of the specified locations of movement for the border people has not yet been initiated.¹⁵⁹

Part 2: Diplomatic

Prior to 1951

Prior to the political changes of 1951 in the region, Nepal's diplomatic relations with China and India were shaped primarily by two treaties: the 1792 and 1856 Treaties with Tibet, and the 1816 and 1923 Treaties with the British East India Company. The 1923 Friendship Treaty and 1856 Peace Treaty remained the basis to maintain their diplomatic relations until 1950 and 1955 respectively.

Nepal-China

The Treaty of 1792 not only opened up diplomatic relations between Nepal, Tibet, and China, but also put China in a position to assume a leading role in political, economic, and security affairs of Nepal and Tibet. Article One of the treaty states, "that China should henceforth be considered as father to both Nepal and Tibet, who should

¹⁵⁹Ibid.

regard each other as brothers.”¹⁶⁰ The Treaty of 1856 reiterated almost all of the provisions of the previous treaty. This treaty, however, was more focused on the management of trade and preserving security interests of each other.

Nepal-India

Article One of the 1816 Sugauli Treaty addressed diplomatic relations between Nepal and the British East India Company: “There shall be perpetual peace and friendship between the Honourable East India Company and the Rajah of Nepal.”¹⁶¹ The treaty not only limited Nepal’s foreign relations mostly to dealings with the British Raj in India, but also increased Nepal’s dependency on the British Raj. The treaty also initiated the exchange of foreign diplomatic residents for the first time between these two countries. Article Seven, and Article Eight of the treaty state:

The Rajah of Nepal hereby engages never to take or retain in his service any British subject, nor the subject of any European and American State, without the consent of the British Government.¹⁶²

In order to secure and improve the relations of amity and peace hereby established between the two States, it is agreed that accredited Ministers from each shall reside at the Court of the other.¹⁶³

The result of the treaty was that Nepal lost 120,394 square kilometers and was confined to 147,181 square Kilometers.¹⁶⁴ The treaty of Sugauli has been called an

¹⁶⁰Jain, 281.

¹⁶¹Subedi, 175.

¹⁶²Ibid., 176-177.

¹⁶³Ibid.

¹⁶⁴Pathak, 1.

unequal treaty. The British East India Company gained a huge territorial advantage, despite the equality, mutual friendliness, and spirit of understanding mentioned in the treaty. Article Two and Three of the treaty forced Nepal to cede its territories, and to accept the terms as imposed by the British East India Company. Bishnu Pathak, director of the Conflict Study Center in Nepal, writes what a former Director General of the Department of Survey of Nepal stated:

The British East India Company prepared the draft of the treaty with the signature of Lieutenant Colonel Paris Bradshaw on 2 December 1815. It was sent to Nepal with a 15-day ultimatum for counter-signature and asked to return it to them. Nepal did not like the terms and conditions of the treaty, so it did not sign within that period. The British then spread rumor that they were launching an attack on the capital, Kathmandu, and even carried out troop movement to show Nepal that it was serious. When Nepal thought that the attack on the capital was inevitable, it was forced to accept the treaty. As it was a treaty imposed on Nepal, the King and high-ranking officials did not want to sign it. But as Nepal was under duress to accept its terms, Chandrashekhar Upadhyaya, who had accompanied Pandit Gajaraj Mishra to the British camp at Sugauli, put his signature on 4 March 1816 and gave it to them. As Nepal had signed the treaty under coercion, after 93 days against the 15-day ultimatum, the treaty came into effect from that day.¹⁶⁵

According to the treaty signed between Nepal and the British East India Company on 1 November 1860, the British East India Company returned some of the territories in the western plains previously ceded to India under the treaty of Sugauli. The treaty of 1923 between Nepal and Great Britain, which explicitly recognized Nepal's complete independence, was partly a reward for wartime co-operation, as Nepal provided military personnel to Great Britain during the First World War.¹⁶⁶ The treaty also allowed Nepal to extend its relationship externally without jeopardizing the British Raj's security.

¹⁶⁵Ibid.

¹⁶⁶Whelpton, 64.

The situation leading towards the independence of India in the year 1947 brought difficulties in maintaining Nepalese-British relations due to the problems created by the growing anti-British and anti-Rana activists. The anti-British activists fled into the Terai of Nepal after the crushing of the Indian National Congress's Quit India movement in 1942. Nepal was, at first, reluctant to co-operate fully with the British East India Company in extraditing them, but did so after the local people in Saptari of Nepal stormed a jail to release Jaya Prakash Narayan and others. Of 490 wanted Congressmen, 465 were eventually captured and handed over.¹⁶⁷ The anti-Rana forces had maintained strong ideological sympathies and personal ties with the Indian nationalists who would replace the British ruler, at the time when they were preparing to relinquish their Indian empire.

In October 1946, the All India Nepali National Congress, with a largely student membership, was set up at Benares, India. This group, with the Calcutta-based Gorkha Congress, other Benares Organizations, and the Nepal Sangh, merged in January 1947 to form the Nepali National Congress.¹⁶⁸ The party promoted a strike in the jute mill at Biratnagar, Nepal. Since the end of the First World War, anti-Rana agitation had developed among the Nepalese living in India. Within Nepal too, there were anti-Rana stirrings, though these were largely confined to a minuscule minority of those educated in India or at the Trichandra College in Kathmandu.¹⁶⁹

¹⁶⁷Ibid., 68.

¹⁶⁸Ibid.

¹⁶⁹Ibid., 65-67.

Nepal's Prime Minister Mohan Shamsheer faced difficulties due to anti-Rana forces, and his strategy was to preserve the internal status quo while seeking to buttress his position externally. In 1945, Britain was the only country with an official representative at Kathmandu.¹⁷⁰ Since Rana Prime Minister Padma Shamsheer's overtures had already been made to the United States and France, Mohan Shamsheer in the early 1950s announced that Nepal wished to establish diplomatic relations with any country willing to reciprocate. The most important priority was to reach an understanding with the newly-independent India, and Mohan Shamsheer found Jawahar Lal Nehru's government less intractable than might have been feared. Much of India's people might have liked to see a more democratic government in Nepal, however, they were also eager for stability on the northern border at the time when the Communists were on the verge of winning the civil war in China and re-establishing that country as a major power.¹⁷¹

After 1951

The diplomatic relationship of Nepal with India from 1951 to 2010 has been based on the treaty of 1950, and the Joint communiqué of 1990. The Rana regime of Nepal and India concluded a Treaty of Peace and Friendship on 31 July, 1950. This was the first treaty between Nepal and India after India became independent from the British Raj in August 1947. Most of the articles of the treaty and letters exchanged with the treaty are related to each others' mutual security, trade and transit. Article One of the treaty states:

¹⁷⁰Ibid., 69.

¹⁷¹Ibid., 69-70.

There shall be everlasting peace and friendship between the Government of India and the Government of Nepal. The two Governments agree mutually to acknowledge and respect the complete sovereignty, territorial integrity and independence of each other.¹⁷²

There was significant development in Nepal-China relations until the diplomatic relations was established in 1955. The relation from 1955 to the present date has been based on the Joint Communiqué of August 1955, an agreement of September 1956, and the Treaty of 1960.

Political Change in Nepal: 1951

In the fall of 1950, several events occurred in the Himalayan areas that led eventually to major political changes in Nepal. The first event was the Chinese invasion of Tibet, accompanied by Chinese assertions of their intent to incorporate this “traditional Chinese territory” into their new empire. This forced New Delhi to abandon the strategies adopted earlier to maintain Tibet as a buffer between India and China; in the process, the Indians also had to revise their policies towards the Border States to the south of the Himalayan crest. In Nepal, this took the form of a decision that the Rana regime--assumed to be vulnerable to Communist subversion--had to be replaced by a more representative and modern political system.¹⁷³ New Delhi still hoped to avoid immediate and drastic changes, but steps in the direction of a more liberal polity were considered necessary.

¹⁷²Subedi, 191.

¹⁷³Rose and Scholz, 120-121.

In February 1951, the Rana regime was formally ended in Nepal with the decisive political backing from India. The Indian embassy in Kathmandu arranged for the “escape” of King Tribhuwan to India in November 1950, and his establishment as an alternative to the Ranas. The various Nepali oppositionist factions that had combined into the Nepali Congress party in early 1950s, were allowed to acquire arms from unofficial sources (Kashmir and Burma primarily), to set up bases in Indian territory adjacent to Nepal, and finally in November to launch a series of armed attacks against Nepal government centers in the Terai and lower hill areas.¹⁷⁴ The eventual consequence was the Delhi Compromise of February 1951, under which the Ranas, King Tribhuwan, and the Nepali Congress agreed to the formation of a coalition cabinet that would operate under the general supervision of King Tribhuwan. The King returned victoriously to Kathmandu on 15 February 1951, and presided over a Council of Ministers of his choosing.¹⁷⁵ India, as the intermediary in these negotiations, had actually devised this formula and assumed a broad level of responsibility for its implementation.¹⁷⁶ This had the effect of placing all the participants in the new government in a position of dependence upon India.

The foreign policy of Nepal during the 1950s was based on the principles of non-alignment,¹⁷⁷ which was a consistent feature of Indian foreign policy by the late 1940s. A

¹⁷⁴Ibid.

¹⁷⁵Rowland, 147.

¹⁷⁶Rose and Scholz, 121.

¹⁷⁷The principles of nonalignment, as articulated by Indian Prime Minister Jawahar Lal Nehru and his successors, were preservation of India's freedom of action

1954 joint Indian-Nepali memorandum, for instance, provided for the coordination of foreign policy. Leo E. Rose and John T. Scholz, experts on Nepalese affairs write:

Nepal's foreign policy, as defined by India in the post 1951 period, was the wholesale adoption of the Indian version of nonalignment as a basic principle without even any serious discussion of its relevance for Nepal. Kathmandu accepted a client-state role in India's regional security, economic, and political system.¹⁷⁸

While King Tribhuwan was on the throne from 1951 to 1955, the government of Nepal cautiously restricted contacts with the outside world to the minimum level acceptable to India. Jagat S. Mehta, an Indian writer, states that:

Nehru who encouraged Nepal's participation in Bandung (1955) at the first Asian Relations Conference, sponsored it for membership of the United Nations and eventually gave consent for the establishment of other resident embassies in Kathmandu, which British India, even while accepting Nepal's independence, had steadfastly resisted.¹⁷⁹

The United States and Great Britain had established formal diplomatic relations with Nepal during the Rana period; these were continued, but on a low profile basis. In 1951, the United States did establish an economic-aid program in Nepal, which had been negotiated with the Rana rulers, but it was not until 1958 that an American embassy was finally approved for Nepal.¹⁸⁰

internationally through refusal to align with any bloc or alliance. <http://www.country-data.com/cgi-bin/query/r-6132.html> (accessed 19 September 2010).

¹⁷⁸Rose and Scholz, 121.

¹⁷⁹Jagat S. Mehta, "India and Nepal Relations: A Victim of Politics," in *India-Nepal Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004), 26.

¹⁸⁰Rose and Scholz, 122.

After the conquest of Tibet in 1951, China began to make some friendly overtures to Kathmandu, but with evident deference to India's wishes and interests. Nepal's responses were usually carefully contrived to move in conjunction with or even slightly behind New Delhi. It was only after India had signed a treaty with China on the Tibet question in 1954, for instance, that Nepal began to seriously consider the establishment of diplomatic relations with China.¹⁸¹

After 1955, the hitherto intimate relationship between Nepal and India underwent a gradual change. With the death of King Tribhuwan, his son Mahendra Bir Bikram Shah Dev ascended the throne, and immediately began to distance Nepal from Indian influence. Accordingly, it established diplomatic relations with China in August 1955. The Nepalese Prime Minister paid a visit to China in September 1956, which was the first such visit by a dignitary to either country. The increased goodwill between China and Nepal was further demonstrated by the return visit by Chinese Premier Chou Enlai to Nepal in 1957. The fact that the Chinese Premier referred to Nepal and China as "blood brothers" showed the intimacy of the relationship that had developed between the two countries.¹⁸² Nepal also became a member of the United Nations in 1955, and also established diplomatic relations with the Soviet Union in 1956.¹⁸³ These developments

¹⁸¹Ibid.

¹⁸²Mahinda Werake, "Foreign Policy Perspectives of South Asian States, 1947-1965," in *Security Dilemma of a Small State*, ed. P. V. J. Jayasekera (New Delhi: South Asian Publishers, 1992), 272.

¹⁸³Ibid.

gradually led to the weakening of India's unchallenged position in Nepal, and its assumption of an independent posture in international affairs.

Nepal and China continued improving their bilateral relations as demonstrated by the signing of a Treaty of Friendship in 1960, and the border agreement in 1961. It brought Nepal to a neutral position vis-à-vis the growing estranged relationship between India and China, which in turn weakened India's strategic position in the north. In fact, after 1959, the Sino-Indian relations became sour, and China began to view the growing friendship of India with the Soviet Union and the United States of America with apprehension. China began accusing India of adopting "forward" policy in the border areas despite its own road-building activities in the Aksai Chin region in the western sector of Sino-Indian border. There were, of course, grounds for accusing India of adopting an aggressive policy in the region in view of the Indian decision to annex Goa in 1961, and being accused of aiding the Nepalese rebels in South-West Nepal.¹⁸⁴ Perhaps India's aggressive policy was in response to the new Chinese belligerence towards India.

King Mahendra continued to pursue a nonaligned policy begun during the reign of Nepal's first King, Prithvi Narayan Shah, in the mid-eighteen century.¹⁸⁵ He emphasized a policy of "equal friendship with India and China."¹⁸⁶ In 1961, China invited the King for an eighteen-day state visit and he was accorded a warm welcome. During that visit, a formal boundary agreement between the two countries was signed. On 6 October 1962,

¹⁸⁴Ibid., 274.

¹⁸⁵Savada, *Nepal and Bhutan Country Studies*, 180.

¹⁸⁶Rose and Scholz, 123.

Chinese Foreign Minister, Chen Yi, speaking at a banquet held to celebrate the first anniversary of the Nepal-China Boundary Agreement, emphatically stated that “the Nepalese people can rest fully assured that should any foreign power dare to attack Nepal, the Chinese government and people, together with all other countries and people who uphold justice, will forever stand by Nepal.”¹⁸⁷ Mahinda Werake, a Sri Lankan writer, states, “the implication was that China would support Nepal in the eventuality of an attack on her by India.”¹⁸⁸

Implication of 1962 Sino-Indian War

The Sino-Indian war of 1962 was limited in scale, but its immediate outcome was disastrous to India. Nepal adopted a neutral policy stand in the conflict, and her fear of India’s prowess was drastically reduced by its military defeat. The Chinese policy in South Asia after the war became one of isolating India and maintaining close relations with all of India’s neighbors.¹⁸⁹ China began to move closer to India’s main adversary in the region, Pakistan, and Nepal, who was attempting to steer away from the India stranglehold. Similarly, China also developed closer relationship with Sri Lanka by signing the Maritime Agreement in 1963.¹⁹⁰

India did not oppose Nepal’s establishment of diplomatic relations with China. However, she expressed concern when Nepal came into an agreement with China to build

¹⁸⁷Jain, 367.

¹⁸⁸Werake, 403.

¹⁸⁹Ibid., 278.

¹⁹⁰Ibid.

a 104-kilometer highway in October 1961. India considered this road to be a breach of the natural security barrier, thus giving China access to the Indian subcontinent through the Himalayas.¹⁹¹ Jagat S. Mehta states that “after the Sino-Indian crisis, following the example of India’s non-alignment, Nepal chose to remain neutral and started cultivating China independently.”¹⁹² Mehta further writes:

There have been some instances of Nepalese insensitivity towards India. Nepal’s neutrality on the India-China crisis has remained embedded in our memory, and it was compounded when Nepal permitted the Chinese to build a road from Kodari with heavy load-bearing bridges; it was bound to be interpreted as naiveté or unfriendliness, at least insensitivity about the Indian reactions. In any case, it was against the spirit of the 1950 Treaty of Friendship.¹⁹³

In the summer and fall of 1962, the government of India began to place heavy pressure upon King Mahendra to come to terms with the “democratic” opposition forces in Nepal by applying unofficial economic pressure such as, in effect, closing the border to trade through the strict enforcement of bureaucratic technicalities as well as supporting increased terrorist activities by the rebels.¹⁹⁴ The vulnerability of Nepal to this limited form of intervention became very evident. King Mahendra was on the verge of making major concessions when China’s initiation of hostilities on its borders with India in October 1962 drastically changed the entire regional environment.

In New Delhi, top priority was now given to strengthening India’s security system on its northern frontiers; one aspect of this policy was a sudden and nearly total turnabout

¹⁹¹Ibid., 300.

¹⁹²Mehta, “India and Nepal Relations: A Victim of Politics,” 28.

¹⁹³Ibid., 29.

¹⁹⁴Rose and Scholz, 124.

in policy towards Nepal. The Nepali opposition forces operating from support bases inside India were instructed to cease their terrorist activities in Nepal and use peaceful political tactics.¹⁹⁵ India also made a serious effort to improve relations with King Mahendra, providing what amounted to an implicit guarantee of the royal regime against India-based opposition forces.

The Nepal-India relations began to improve, and King Mahendra started extracting concessions on economic issues from New Delhi throughout the period of time between 1963 and 1967. New Delhi reluctantly agreed to several Nepali demands, particularly on transit trade with third countries through India, and on access to the Indian market. Nepal made the most of this unexpected opportunity by steadily raising the levels of its demands on India, and almost anything seemed possible, and still the level of expectation in Nepal on its capacity to extract concessions from India rose accordingly. In 1969, differences emerged in their relationship when Nepal asked to withdraw Indian security posts along Nepal-China border.

The relations between Nepal and China were further strengthened by the exchange of high-level visits, economic aid, and trade agreements between the two countries. One exception was the belligerent activities of the Chinese officials in Nepal who eulogized and extolled the success of the Cultural Revolution¹⁹⁶ during the summer of 1967.¹⁹⁷

¹⁹⁵Ibid.

¹⁹⁶It was a mass mobilization of urban Chinese youth inaugurated by Mao Tse-tung in an attempt to prevent the development of a bureaucratized Soviet style of Communism in 1966-76. Mao closed schools and encouraged students to join military force, Red Guard units, which denounced and persecuted Chinese teachers and

By the beginning of 1970s, there appeared to be a more realistic appraisal in Nepal of the inevitable limitations on the use of the “China card.”¹⁹⁸ The substantial expansion of the Indian military in the post-1962 period from approximately 500,000 to a million men was one factor.¹⁹⁹ The balance of military power on the Himalayan border shifted gradually to India’s favor, leading eventually to probable Indian superiority at key points on the frontiers. Thus, Nepal ended up about as vulnerable to Indian pressure in the 1970s as it had been before the 1962 Sino-Indian war. There was, moreover, considerable resentment in the Indian government circles over the tactics Nepal had employed to extract concessions during the period of Indian weakness, as well as a strong determination to change the process of interaction between the two states. The hard-line positions adopted by the Indian government in most negotiations with Nepal since 1970 have been, in part, a reflection of this attitude, and Kathmandu has found the China connection of limited utility under these changed circumstances.

1970-1989 Period

The death of King Mahendra in January 1972 brought crown prince Birendra Bir Bikram Shah Dev to the throne of Nepal.²⁰⁰ He had been gradually inducted into the

intellectuals, engaged in widespread book burnings, facilitated mass relocations, and enforced Mao's cult of personality. Jeffrey N. Wasserstrom, *China in the 21st Century: What Everyone Needs to Know* (New York: Oxford University Press, 2010), 59-61.

¹⁹⁷Savada, *Nepal and Bhutan Country Studies*, 186.

¹⁹⁸Rose and Scholz, 128.

¹⁹⁹*Ibid.*

²⁰⁰*Ibid.*, 129.

process of decision making by his father, and had also undergone a variety of educational experiences in India, Great Britain, the United States, and Japan that had exposed him to intellectual cross currents in the outside world. The change in the political style and in the character of the palace clique in the new regnum inevitably affected policy issues as King Birendra sought to establish an image distinct from that of his father.²⁰¹ In foreign policy, however, the change was more rhetorical, as the basic objectives of his predecessor were retained, and even strengthened.

The role played by Nepal to quell anti-Chinese activities in 1974 was a significant contribution, which persuaded China to strengthen diplomatic relations, and furthered the confidence and mutual trust between these two countries. The government of Nepal found itself in a position to undertake a police action--using the Nepal Army--directed at the Tibetan, Khampa refugee centers in the northern border regions that, in practice, controlled some sections of Nepali territory on the northern border with Tibet.²⁰²

Kathmandu had never reconciled itself to this situation, but previously had lacked the capacity to do much about it, despite the periodic complaints from China that these Khampas were raiding across the border into Tibet. Serious divisions within the Khampa rebel forces in 1974 provided Nepal with the opportunity to bring these sensitive frontier areas back under effective control, and the operation was launched.

The Chinese government applauded, of course, but New Delhi, which had been providing material and financial assistance to the Tibetans since the 1962 war, was less

²⁰¹Ibid.

²⁰²Ibid., 132.

than happy, as this trumped one of their high cards in the long process of negotiations with China on the Himalayan border.²⁰³ If the Khampas were to be brought under control, the Indians preferred to do so as a concession to China in exchange for a concession--perhaps the termination of Chinese support for Naga and Mizo rebels in the northeastern India.

The differences in the diplomatic relationships between Nepal and India emerged again in the early 1970s. Nepal adopted a cautious policy of appeasement of India.²⁰⁴ In 1973, at the nonaligned movement conference in Algeria, King Birendra stated that, "Nepal, situated between two of the most populous countries of the world, wishes within her frontiers to be declared a zone of peace."²⁰⁵ In the 1975 coronation address, King Birendra asked neighboring states and other major powers to formally recognize Nepal as a "zone of peace." This subsequently has become the major theme in Nepali foreign-policy. More than 100 countries supported the proposal, except India. China, Pakistan, and Bangladesh quickly endorsed the proposal when asked to do so by Nepal in 1976, and have stated their willingness to sign an international document on this basis.²⁰⁶ M. R. Josse, Consultant Editor of a Kathmandu based, *The People's Review*, writes:

By April 1990, although 116 nations--including China, the US, the UK and France--had endorsed zone of peace, India adamantly refused to coalesce in. Two American scholars, think India viewed zone of peace as "an attempt by Nepal to opt out from India's security perimeter and to abrogate the special relationship

²⁰³Ibid.

²⁰⁴Savada, *Nepal and Bhutan Country Studies*, 181.

²⁰⁵Rose and Scholz, 130.

²⁰⁶Ibid.

with India under the 1950 Treaty. Dampening India's enthusiasm was the fact that Pakistan and China were among zone of peace's first supporters. What must not have gone un-noted, too, was that a joint Sino-Pakistan communiqué issued in Beijing after Premier Z. A. Bhutto's official visit to China in May 1976, expressed the two governments' "firm support" for zone of peace.²⁰⁷

India showed more flexibility in placating Nepal by distancing, if not disassociating, itself from the Nepalese opposition forces based in India, agreeing to a favorable trade and transit arrangement in 1978, and entering to another agreement on Joint venture industries (JVI) between Indian and Nepalese firms.²⁰⁸ The later agreement, by opening the possibilities of India's investment, indirectly furthered India's domination of Nepal's economy. Had the proposal of the "zone of peace" been agreed, it would seem, the 1950 Nepal-India treaty would have to be abrogated or at least substantially amended, and some of the other less public agreements with India would not have fit easily into this new format.²⁰⁹ Prakash A. Raj, a Nepalese writer, writes that K.V. Rajan, a former Indian Ambassador to Nepal had stated that "the zone of peace proposal is a thinly disguised attempt to bury Nepal's security obligation to India under the 1950 Treaty."²¹⁰ The critical response for Nepal, of course, was that of India, since New Delhi's non-adherence would make a zone of peace agreement endorsed by the rest of the world a scrap of paper. And the Indian position on this issue was made perfectly clear by

²⁰⁷M. R. Josse, "Nepal's Strategic Balancing," *South Asian Security Dilemmas*, *South Asian Journal* (January-March 2004), http://www.southasianmedia.net/Magazine/Journal/nepal_strategic.htm (accessed 21 September 2010).

²⁰⁸Savada, *Nepal and Bhutan Country Studies*, 181.

²⁰⁹Rose and Scholz, 130.

²¹⁰Prakash A. Raj, "Indo-Nepal Relations: Future Prospects," Institute of Foreign Affairs, <http://www.ifa.org.np/pdf/prc/prakasharaj.pdf> (accessed 25 June 2010).

both Indira Gandhi and the Morarji Desai governments--namely, that New Delhi would not buy it in any form, shape, or definition.²¹¹

Several other factors contributed to the deterioration of Nepal-India's diplomatic relations during the 1970s. The official encouragement given to the "popular" demonstration in Kathmandu in 1973, protesting the Indian action in Sikkim that set the stage for the accession of that border state into the Indian republic, brought a strong protest from New Delhi, accompanied once again by economic pressure upon Nepal through the use of trade-control technicalities.²¹² The Nepal government was silent on the issue thereafter, even in 1975 when Sikkim was absorbed by India, but its great concern over this development was readily evident.

In 1976, King Birendra's highly publicized visit to the Szechwan and Tibet provinces in China, just prior to a new round of negotiations on the Nepal India trade and transit, were not particularly important in themselves, but contributed to a steady, if undramatic, deterioration in Nepal-India relations. The Indian response was, by now classic--the use of delay tactics in the renegotiation of the 1971 Trade and Transit Treaty that was due to expire in 1976.²¹³ In this instance, New Delhi even threatened to discontinue applying the terms of the 1971 Trade Treaty on an ad hoc basis until a new agreement was concluded, which would have been an instant disaster for the Nepali economy. By 1977, there appeared to be increasing sophistication in the King Birendra

²¹¹Rose and Scholz, 131.

²¹²Ibid., 132.

²¹³Ibid., 133.

regime concerning trends in foreign policy, particularly with respect to the strategies employed in dealing with India. The defeat of Indira Gandhi, and the Congress party in the March 1977 elections in India was generally welcomed in Kathmandu, though not without some reservations.²¹⁴ Although Gandhi had adopted an increasingly hard line on political and economic relations with Nepal (e.g., the trade and transit), she had also dissociated her government from the Nepali oppositionist forces based in India, and applied even sharper restrictions on their operations.

Nepal-India Crises: 1988-1990 and Its Aftermath

The differences in the relationship that started since the proposal of the “zone of peace” led to a crisis in the Nepal-India diplomatic relations in 1988-1990. The center of the controversy was the 1950 Treaty and the Arms Accord of 1965, which, according to India, Nepal had overstepped by importing arms from China. Nepal’s well-publicized position was an end to the “special relations” with India.²¹⁵ China, however, did not publicly condemn India’s action. It tried to support Nepal during the eighteen-month embargo by supplying vital goods and fuel.²¹⁶

The crisis of 1989 led to political change in Nepal and the signing of another agreement with India. On the political front, unofficially, according to both Nepali and

²¹⁴Ibid.

²¹⁵Dhruba Kumar, “Reconsidering Nepal-India Bilateral Relations,” Contribution to Nepalese Studies 21, no. 1 (January 1994): 76, http://himalaya.socanth.cam.ac.uk/collections/journals/contributions/pdf/CNAS_21_01_03.pdf (accessed 14 September 2010).

²¹⁶Sidhu and Yuan, 26.

Indian diplomats and policymakers, the “frosty” relationship between the Indian Prime Minister Rajiv Gandhi and King Birendra of Nepal--two image-conscious and reasonably uncharitable men--had played a big part in the drama.²¹⁷ The mutual irritation peaked during a summit meeting of the seven-nation South Asian Association for Regional Cooperation in Islamabad in December 1988.²¹⁸ The Indians said that King Birendra snubbed a breakfast invitation from Gandhi; the Nepalese said that the King refused to be photographed with Gandhi and the King of Bhutan, who many Nepalese thought had allowed himself to be treated as a vassal of Imperial India. During the crisis, Nepal’s government proved to be more resilient under Indian pressure than New Delhi apparently expected.²¹⁹

A year of hardship and mounting political protests, some of it openly backed by Indian politicians who came to Nepal and made public speeches against royalty, followed. The crisis peaked in early 1990 in street demonstrations suppressed by the Royal government, with the Nepali left and Indian press greatly inflating the casualties for world consumption.²²⁰ To avoid further violence, the Nepali monarch was forced to abdicate much of his absolute power in the new constitution, and a democratic election was announced in more than three decades.

²¹⁷Crossette, 112.

²¹⁸Ibid.

²¹⁹Ibid., 113.

²²⁰Ibid.

What New Delhi had not anticipated was the ability of the Nepali people to separate their grievances against the king from their attitude towards India, which they believed had now openly demonstrated its willingness to strip Nepal of sovereignty--if it was not in a position to annex the country outright--through economic sanction and diplomatic arm-twisting. The resurgent Nepali left made the most of this anti-Indian sentiment in the 1991 national election. India had failed in its primary aims to consolidate the trade and transit treaties and curtail the influence of China in Nepal. In 1990, another non-Congress government under V. P. Singh, overriding efforts by its own foreign ministry to sabotage the bettering of relations with Nepal, signed the two new treaties Nepal wanted.²²¹ Most other outstanding differences were also resolved by India's foreign minister Inder Kumar Gujral and Nepal's acting Prime Minister, Krishna Prasad Bhattarai, eliminating much of the pressure on this small country trying to recover from both political turbulence and economic dislocation.²²² Meanwhile, Nepal successfully broadened its trade links in Asia, expanded the number of foreign airlines flying directly to Kathmandu, bypassing India, and resumed giving large construction contracts to the Chinese.

The Joint communiqué signed between Nepal and India in June 1990 was based safeguarding India's security and trade interests in Nepal. The principle provision of the treaty was:

Nepal and India will fully respect each other's security concerns. In this context, neither side will allow activities in its territory prejudicial to the security

²²¹Ibid.

²²²Ibid.

of the other. The two countries shall have prior consultations with a view to reaching mutual agreement on such defense-related matters which, in the view of either party, could pose a threat to its security.²²³

With regards to one of the provision of the communiqué; “prior consultations with a view to reaching mutual agreement on such defense-related matter,” could be viewed as a threat perceived by India when Nepal purchased weapons from China, and could limit Nepal’s agreement on defense-related matters with a third country which India had perceived or would perceive as a threat to its security.

Nepal’s diplomatic relationship continued with China throughout the Nepal-India crises of 1988-1990. As the actual crisis started in March 1989, Nepal’s Prime Minister visited China in September 1989, and was reciprocated by Chinese Premier’s visit in November of the same year.²²⁴ However, there was a break in the exchange of diplomatic visits from 1990 to 1991 until another visit was resumed on March 1992.²²⁵ One of the reasons could be the political situation created by the Nepal-India crises; or the dominant role of India in bringing the new political situation, and the agreement between Nepal and India in the aftermath of the political change of 1990, and the increasing relationship of the political parties in power with India vis-à-vis role of king as a constitutional monarch, might have led China to distance itself from Nepal.

²²³Subedi, 10.

²²⁴Ministry of the Foreign Affairs of China, Bilateral Relations, Nepal.

²²⁵Ibid.

Maoist Insurgency: 1996 to 2005

The Maoist insurgency started in Nepal in February 1996, which caused Nepal to focus entirely on the management of its internal affairs. The party politics had just been in the formative years and were focused on internal party management. A memorandum was signed with China concerning cultural cooperation in December 1999, and an agreement on economic and technical cooperation was signed in February 2000, which came only after 12 years of signing the last agreement between Nepal and China concerning the temporary flight service between Lhasa and Kathmandu in August 1987.²²⁶

As the insurgency was rapidly gaining its hold, the international ramifications of the conflict were complex. The initial Maoist attack on the Nepal army in November 2001, came only a few weeks after the destruction of the World Trade Center in New York. This timing, in addition to the Maoist' declared ideology, would have ensured full United States backing for the government in Kathmandu, even if Prime Minister Sher Bahadur Deuba's administration had not also formally declared the rebels "terrorists"--a label which was removed during the ceasefire in 2003, but then re-imposed. The Maoist responded by branding the Nepalese government an "American puppet" and tried to exploit tensions between the palace and the political parties.²²⁷ They ceased their denunciations of "Indian hegemonism," and claimed instead that American logistical and

²²⁶Ibid.

²²⁷Whelpton, 223.

diplomatic support for the government, which continued after Deuba's dismissal, threatened the interests of both India and China.²²⁸

Royal Family Massacre: 2001

A bizarre tragedy put Nepal at the centre of world attention for a few days when the royal families were massacred on 1 June 2001. While king Birendra was declared dead, the then crown prince Dipendra was still breathing, and was placed on a life-support machine. The following morning, the State Council declared the unconscious Dipendra the king, and appointed as regent his uncle, Gyanendra. On 4 June, after Dipendra died in hospital, Gyanendra was proclaimed king, and formally ascended the throne.²²⁹

The Maoist, though they were themselves unsure of what really happened, immediately accused Gyanendra of responsibility, and alleged he had been part of plot involving the American Central Intelligence Agency and the Indian Research and Analysis Wing.²³⁰ A statement issued by Maoist leader Prachanda depicted the massacre as an “imperialist” blow against the Maoist, and claimed that King Birendra had been killed for his refusal to allow full deployment of the army against them.²³¹ In a similar line to what Prachanda said, another Maoist leader, Baburam Bhattari, alleged that the

²²⁸Ibid.

²²⁹Ibid., 211-213.

²³⁰Ibid.

²³¹Ibid., 216.

massacre was the result of a conspiracy, which was intended to replace a patriotic king with one who would do India's bidding.²³²

The Maoist Insurgency and India

India's attitude was not entirely clear and appeared to be against the Maoist in the beginning of the insurgency. Particularly in view of the links between the Nepalese Maoist and similar groups in India itself, the Indian government regarded the rebellion as a security threat and had in fact started describing the Maoist as "terrorists" even before Nepal's government did so.²³³

The Maoist anti-Indian themes changed dramatically almost five years after the start of the insurgency. The revelation of the Maoist' secret links with India would have been less damaging if not for their initial shrill opposition to India. Having identified New Delhi as the hegemonic power, which presided over Nepal's semi-colonial condition, the Maoist had fed the masses for years on strident anti-India rhetoric.²³⁴ The Maoist top leaders, some of whom were believed to be in Kathmandu, sometime in the initial five years of insurgency, now appeared to be hiding across the open border in India, where the rebels also sought treatment for their injured. In 2001, it was revealed that Maoist were operating from bases in India.²³⁵ Their presence in India was also

²³²Hutt, 8.

²³³Whelpton, 223.

²³⁴Shah, 210.

²³⁵Ibid.

confirmed when Nepali Congress Party leader Girija Prasad Koirala and another Congress Party leader had met the Maoist leader Prachanda in Delhi in March 2002.²³⁶

The Indian support to the Maoist, which was revealed in 2001, might have linkages with a few key factors: the anti-Indian themes of the Maoist, the influential role of Communist Parties in Indian government, and an increasing foreign presence in Nepal. The “anti-Indian” themes spread by the Maoist during the start of insurgency and the continuation of same until 2000, made Indian establishment to consider the Maoist. The theme again gained heights during the “royal massacre” which might have made Indian establishment to bargain with Maoist on certain grounds by providing shelter in India.

The considerable influence of Communist Party of India (Marxist) CPI-M in the Indian government since 1996 was another contributing factor for the Maoist in favor of India. A renowned Communist figure of India, Jyoti Basu, who was the Chief Minister of West Bengal, India from 1977 to 2000, was even in a position to become the Prime Minister of India in 1996, helped in stitching together coalition governments led by V. P. Singh in 1989, H. D. Deve Gowda in 1996, and Inder Kumar Gujral in 1997.²³⁷ In 2004, Basu, and a stalwart figure of CPI-M Harkishan Singh Surjeet impressed upon the Left parties to lend support to the Congress-led United Progressive Alliance government of Manmohan Singh.²³⁸ The leader of CPI-M, particularly Sita Ram Yechury, is known to

²³⁶Whelpton, 219.

²³⁷*The Pioneer*, “Communist icon Jyoti Basu, who almost became India's PM, is dead” 18 September 2010, <http://www.dailypioneer.com/229929/Communist-icon-Jyoti-Basu-who-almost-became-Indias-PM-is-dead.html> (accessed 18 September 2010).

²³⁸*Ibid.*

be sharing warm relations with Maoist leaders Prachanda and Baburam Bhattarai of Nepal.²³⁹ The criticism of Indian foreign policy over the last few years also provides evidence about the Indian policy, and support towards Maoist in Nepal. The South Asia Analysis Group writes in an analysis paper of May 2008:

The forthcoming emergence of a Nepalese Maoist Government in Kathmandu can be viewed as India's biggest foreign policy failure after Nehru's gifting of Tibet, yet another buffer-state to China in 1950. Nepal as India's buffer state gifted to the Chinese orbit resulted from the Congress Government allowing its Nepal policy to be determined by the CPI-M leaders Prakash Karat and Sita Ram Yechury. India's foreign policy on Nepal was virtually out-sourced to the CPI-M by the Congress political leadership. It was under CPI-M political pressure that Nepalese Maoist were facilitated and accorded a participatory role in Nepal's political space. What the Maoist leader Prachanda could not achieve (political power) in a decade of violent insurgency was handed over on a plate to him by India courtesy the CPI-M.²⁴⁰

India's ruling establishment was not too fond of the Nepalese monarch, especially India's first External Affairs Minister in the present Congress Government. The present External Affairs Minister owes his first elected seat in Parliament to the CPI-M's political support to a large extent, and cannot but be beholden to them.²⁴¹

The Maoist Insurgency and China

The Maoist, from the very beginning of the insurgency until they joined the political mainstream on 21 November, 2006, neither talked about China, nor the Chinese

²³⁹*The Indian News*, "Nepal crisis 'not unnatural', says Sitaram Yechury," 5 May 2009, http://www.thaindian.com/newsportal/politics/nepal-crisis-not-unnatural-says-sitaram-yechury_100188742.html (accessed 16 September 2010).

²⁴⁰Dr. Subhash Kapila, "India's Foreign Policy mauled by Leftist Parties," South Asia Analysis Group, Paper No. 2692, 6 May 2008, <http://www.southasiaanalysis.org/%5Cpapers27%5Cpaper2692.html> (accessed 17 September 2010).

²⁴¹*Ibid.*

government expressed serious concern related to the situation created by the Maoist insurgency in Nepal. Nischal Nath Pandey, director, Center for South Asian Studies, writes:

A panel discussion conducted by the Delhi-based Institute of Peace and conflict Studies for the first time had a series of speakers who disclosed that “China has its own interests in Nepal, but not to the detriment of India, [and] there is evidence that China is aiding the Maoist, and the latter are openly proclaiming their leaning towards Beijing.” Other than this, no reportage or any discussion openly pinpointing Beijing for Nepal’s conflict can be found.²⁴²

The Chinese government’s diplomatic support to Nepal’s government continued during the peak of the insurgency, especially from 2001 to 2005. The normal relations were maintained by the exchange of high-level visits and economic aid. In December 2001, right after the imposition of the state of emergency, Chinese Foreign Minister Tang Jiaxuan spoke over the phone with Prime Minister Deuba, making the stand of the Chinese government clear that it would support the Nepalese government in hitting back against the anti-government forces and maintaining peace and stability in Nepal.²⁴³ Pandey, further writes “according to the erstwhile Chinese ambassador to Nepal Wu Congyong, China does not consider the insurgents as Maoist, as they are abusing the name of their great leader.”²⁴⁴ Josse, writes:

the use of the term ‘Maoist’ is an insult to China’s great leader Mao Zedong, China labels CPN-M as an ‘anti-government outfit.’ There have not been any reports of contacts between Nepalese Maoist and Chinese officialdom. Neither

²⁴²Pandey, 155.

²⁴³Ibid.

²⁴⁴Ibid., 156.

has one ever heard of Maoists either being assisted in any way or being offered sanctuary or safe haven by China.²⁴⁵

International Support to Nepal and the Response of India and China

Towards 2002 and 2003, India was concerned with the growing foreign presence in Nepal. The increased support provided by the United States and United Kingdom governments in terms of training to the Nepalese Army's personnel, and the provision of weapons and equipment was a matter of serious concern for India, which it could neither express officially nor take any direct action as was the case in the 1988-1990 Nepal-India crises. One of the reasons might be the ongoing Global War against Terrorism and the declaration of the Maoist as an "other terrorist organization" by the United States Department of State in 2002.²⁴⁶ The increasing support of the United States in Nepalese state affairs caused concern, not just for the Maoist, but also for the Indian government. The king of Nepal, who imposed his direct rule by dissolving parliament on February 2005, could not gain Indian support wholly for granted.

"Indeed, Indian perspectives on Nepal's political travails are complex and nuanced. The Indian government's response has alternated between covert support for the Maoist, and the peremptory extradition of certain members of the Maoist to Nepal."²⁴⁷

Michael Hutt, a reader in Nepali, at the School of Oriental and African Studies at the University of London, writes "The 'Indian angle' of the affair is a crucial one, which

²⁴⁵Josse.

²⁴⁶Vaughan, "Nepal: Background and U.S. Relations," 23, CRS Report for Congress, 1 March 2005, <http://fpc.state.gov/documents/organization/44927.pdf> (accessed 2 October 2010).

²⁴⁷Hutt, 16.

deserves much greater attention.”²⁴⁸ The Maoist came to the negotiation table twice; August 2001 and January 2003. One of the factors that brought both the Government and the Maoist to the negotiating table for the second time in January 2003 was the increasingly active interest taken by India.²⁴⁹

Although India continuously provided military support to the Government of Nepal to fight the insurgency, it was keen to bring the Maoist into the political mainstream so that the perceived foreign presence could be reduced. The internal motive behind that could be to decrease the direct ties between the militaries of Nepal, the United States, and United Kingdom, which was in the lexicon of the Indian establishment, “a violation of provision of the 1950 treaty.” India desired, and continues to desire western countries follow the Indian channel in dealing with Nepal. Malik, writes:

As far as the US-Nepal cooperation is concerned, a joint US-Nepal military counter-insurgency exercise was conducted in January-February 2003. This was followed by another exercise. Earlier, the US Defense Attaché in New Delhi looked after military relations with Nepal. Now a separate US military Attaché has been posted in Kathmandu. According to reports, three US military delegations and assessment teams have visited Nepal recently, and about US\$ 12 million worth of military assistance has been promised. This includes about 3000 M-16 rifles. UK has given two helicopters, thirty-five Land Rovers, and some other logistics equipment. According to some reports, Pakistan too has offered some military assistance to Nepal. In conclusion, I would like to make two points that impact our security relationship. The first concerns Indian assistance of military weapons and equipment to the Royal Nepal Army. The Royal Nepal Government has often complained about the delays, or the quality of these weapons and equipment. . . . The other issue concerns internationalization of this issue is neither good for Nepal nor for India. Even China would be worried on this account. This is an area that should be treaded carefully. Increased foreign

²⁴⁸Hutt, 16.

²⁴⁹Ibid.

presence, particularly the US military presence, could cause the Chinese concern and even involvement.²⁵⁰

China did not express any concern about the developing situation during the Maoist insurgency and kept a low profile, but has kept an observant eye on the incident taking place.²⁵¹ Bruce Vaughan, in a report to the United States Congress, writes, “China has distanced itself from the Nepalese Maoist.”²⁵²

Relationship Entered into the New Era: 2007

The relationships of Nepal with India and China entered into a new era after the political change of 2007-2008. Nepal’s dealings with India and China during 1950 to 2006 were more guided by the monarchical system. India proudly claims its instrumental role in bringing the political change in Nepal according to the desire of Nepalese people. India has expressed its commitment to support Nepal’s political process in the changed political setting. The Embassy of India, Kathmandu writes:

Beginning with the 12-Point Understanding reached between the SPA and the Maoist in Delhi in November 2005, Government of India welcomed the roadmap laid down by the historic CPA of November 2006 towards political stabilization in Nepal through peaceful reconciliation and inclusive democratic processes, India has consistently responded with a sense of urgency to the needs of the people and Government of Nepal in ensuring the success of the peace process and institutionalization of multi-party democracy through the framing of a new Constitution by a duly elected CA.²⁵³

²⁵⁰Malik, 85-86.

²⁵¹Pandey, 159.

²⁵²Vaughan, “Nepal: Background and U.S. Relations,” 5.

²⁵³Embassy of India, Kathmandu, Economic Cooperation, Current Operations, <http://www.indianembassy.org.np/economic-cooperation.php><http://www.indianembassy.org.np/india-nepal-relations.php> (accessed 4 September 2010).

China appeared to be relatively silent throughout the insurgency, but increased its activities, since the beginning of the political change in Nepal. Robert D. Kaplan, a senior fellow at the Center for a New American Security in Washington and a national correspondence for *The Atlantic*, writes “the curtailment of political freedoms had caused the West to downsize its relationship with Nepal, the Chinese were seriously upgrading theirs.”²⁵⁴ China welcomed the new political development, and expressed that “China would respect the Nepalese peoples’ decision for a political change.”²⁵⁵ The newly appointed Ambassador of China became the first foreign envoy in Nepal to present his credentials to the then-prime minister, Girija Prasad Koirala. It provided a clear indication of China’s position on Nepal’s political change, by not presenting the credentials to the head of the state. The monarchy had not been formally abolished at that time, and although playing a dysfunctional role, the king was still living in the palace.

In the changed political setting, Nepal appeared keen to strengthen its diplomatic relations with India and China. The Policies and Programs of the Government of Nepal announced for the fiscal year 2009-2010, states that “friendly and cordial relations with neighboring countries, particularly with India and China will be further strengthened.”²⁵⁶

²⁵⁴Robert D. Kaplan, *Monsoon: The Indian Ocean and the Future of American Power* (New York: Random House, 2010), 207.

²⁵⁵Adhikary, “A red-carpet welcome for Nepal,” Nepalnews.com, <http://www.nepalnews.com/main/index.php/component/content/article/13-top-column/3037-a-red-carpet-welcome-for-nepal-.html> (accessed 11 September 2010).

²⁵⁶Office of the Prime Minister and Council of Ministers, Policies and Programs of the Government of Nepal.

The policy further states that, “the Nepalese territory will not be allowed to be used against any neighboring and friendly countries.”²⁵⁷

India and China were also trying to influence the new political establishment of Nepal to secure their interests. The activities of India and China were also happily welcomed in Nepal. The political change was not going to have much effect for India in relation to managing its relationship with Nepal because India had been exercising its dominance through the political parties in government since the multi-party democracy established in 1990. The Indian establishment has succeeded in keeping almost all of the major political parties of Nepal within its sphere of influence. India had been maintaining a good relationship with an old political party of Nepal, the Nepali Congress since 1950. Another major party, the Nepal Communist Party-United Marxist Leninist has also entered under the same sphere since the beginning of the multi-party democratic era in 1990. The intra-party and inter-party conflicts have been characterized as major hurdles to the rise in power for the political parties in Nepal, due to which, various segments of the political parties have been reaching out to gain Indian support, either covertly or overtly, and the case has not remained new to the Maoist too.

It appeared that the situation brought by the political changes made it difficult for China to manage its relations with Nepal, especially to deal with political parties in the changed setting, who had been maintaining relationships through the monarchy for the past four decades. Given the dynamics of India-oriented major political parties of Nepal, the dominant role of India in Nepal’s political change, and the rise of the Maoist as one of

²⁵⁷Ibid.

the major political forces through the CA election, might have encouraged China to develop stronger ties with the Maoist government in the aftermath of the political changes. The increased diplomatic activities of China after the political changes would have been due to major interests. China would have visualized a larger scale of “free Tibetan movement” in Kathmandu on the occasion of 50th anniversary of the “free Tibet movement,” and the international implication of the movement just a few months before the opening of Beijing Olympics in August 2008. And another reason may be the development of the covert relationship between the Maoist and the Communist party of China to muster enough support to the Maoist government, politically and economically.

Given the scope of Chinese activities in Nepal, in a short duration and in a scale larger than during the period of insurgency, and even larger than before the insurgency, it indicates that the Maoist might have succeeded in winning Chinese’ confidence and support. China too, in order to ensure its “one China policy,” from the territory close to fragile Tibetan heartland and location of Dalai Lama vis-à-vis, from the Chinese perspectives and India likely to encourage “free Tibetan movement” in Nepal, might have increased the Chinese need to look for a political power vis-à-vis shared ideology who could safeguard her interests in Nepal. The security dilemmas perceived by the Chinese establishment and the Maoist, looking for greater support to their government tuned to accommodate their interest.

The Maoist’ immediate need to extend relationships with China would have also been encouraged by the growing Indian attitudes towards the Maoist immediately after

the CA election. India never expected that the Maoist would emerge as the largest party in the CA elections.²⁵⁸ Pathak, writes:

Having a new Maoist government was delayed when India intended not to allow Prachanda to have similar role to the position of the then Prime Minister, Koirala, who could understand Indian diplomatic signals in Nepal. It was severely humiliating to the Maoist. The Indian establishment did not support the Maoist Presidential candidate either. The Maoist-led Government was only formed after four-months on 15 August 2008.²⁵⁹

Between the periods from 1996 to 2007, given the range of the Maoist policies, it became very hard to identify their exact intention towards India and China until 2008. Although the Maoist exploited Indian cooperation to come to power, they had not left their initial stand of abrogating the 1950 treaty. Moreover, the hard-line anti-Indian sentiments could not be washed away overnight. Prachanda, when he paid an official visit to India as Prime Minister in September 2008, raised this issue and agreed with India's Prime Minister to "review, adjust, and update" the 1950 treaty and other agreements while giving due recognition to the special features of the bilateral relationship.²⁶⁰ Coupled with these issues, the increasing relationships between the Maoist and China after the political change, which was almost void, provided an indication of the Maoist's intention towards China.

India was uncomfortable with the Maoist government and its policy of seeking "equal ties" with Beijing, as it was seen by the Indian media and analysts as a diplomatic code for an end to the very "special relationship" between India and Nepal. The Indians

²⁵⁸Hafeez.

²⁵⁹Pathak, 10.

²⁶⁰Nayak, "Maoist Rhetoric on India-Nepal Relations."

perceived Prime Minister Prachanda's visit to China as China's rise in India's periphery and the subcontinent's shifting balance of power in China's favor. India was also not very happy with the Maoist continuous insistence on integrating the Maoist combatants into the Nepalese Army. That was evident in the Indian insistence that the "professional character" of the Nepal Army needs to be preserved.²⁶¹ In addition, the growing security complication, which India has conceived and conceives due to the Maoist increased clout in Nepal has appeared as a constant source of worry for India. Kaplan, writes:

Maoist-inspired instability in Nepal, where half of the population lived close to the Indian border, and which was in the eyes of Indian security officials under the increasing influence of both Pakistan's Inter Services Intelligence and China. Even if this was exaggerated, their insistence of it reflected their own and their country's insecurity on this particular front, especially as the strengthened Maoist position in Nepal might have encouraged terrorist attacks in central and eastern India by Maoist Naxalites.²⁶²

Issues in Diplomatic Relations

The major contention in the diplomatic relations between Nepal and India has been observed in two treaties--the 1950 Treaty of Peace and Friendship, and the Joint communiqué signed between Nepal and India in 1991. The foundation of diplomatic relations between Nepal and India lies on the 1950 treaty, but it has been a subject of controversy in Nepal. Similarly, in the aftermath of the crisis of 1988-1990, which brought political changes in Nepal, India proposed a "secret" draft treaty to King Birendra, and later managed to ratify the treaty with most of what it had in the draft "secret agreement" presented to the King.

²⁶¹Hafeez.

²⁶²Kaplan, 132.

Successive Nepalese governments have every now and then claimed that the 1950 Treaty is now outmoded and derogations from it are commonplace. Surya P. Subedi, one of Nepal's leading experts on International Law at Leeds University, states that "the observance of the 1950 treaty has been the matter of acute controversy between Nepal and India more or less since the late 1950s when a "secret" letter exchanged with the treaty was made public."²⁶³ Prime Minister Mohan Shamsher, the head of the Rana regime, which was about to be thrown by a democratic movement led by the Nepali Congress, signed this letter, together with the treaty. In its last days in power, that government was desperate for foreign assistance for its survival and was prepared to act in concert with New Delhi. Nehru, a shrewd politician, quickly grasped the situation and the opportunity it offered. That is how the Peace and Friendship Treaty was concluded between these two countries under which India managed to secure terms favorable to it. Subedi further writes, what an Indian writer S.D Muni stated, "the Ranas fully accommodated India's security and commercial interests."²⁶⁴ Soon after, the Rana regime in Nepal fell, but the treaty it concluded survived, and survives to this day much to Nepal's discomfort.

The question to amend the 1950 treaty gained momentum when the Maoist insurgency started in 1996. Out of the 40-points demand the which Maoist submitted to the then-government of Nepal in February 1996, number one demand was, "all

²⁶³Subedi, 3-4.

²⁶⁴Ibid., 4.

discriminatory treaties, including the 1950 Nepal-India Treaty, should be abrogated.”²⁶⁵

In a leaflet distributed through the country on 13 February 1996, the CPN-M denounced the Nepali government for “prostrating itself before the foreign imperialists and expansionists and repeatedly mortgaging Nepal’s honor and sovereignty to them. The present state has been shamelessly permitting the foreign plunders to grab the natural resources of Nepal and to trample upon our motherland.”²⁶⁶ In one interview, Prachanda asserted that his army would ultimately fight and defeat the Indian army in Nepal.²⁶⁷ During the insurgency, it was revealed that Maoist were supported by India but in later stage of insurgency, India started taking action against the Maoist leader staying in India. The Maoist got further support from Indian government when they formed their government in August 2008 in Nepal.

When Maoist came to power, they again raised their original agenda to amend the 1950 treaty. Not only after ascending to power, but throughout the insurgency, the Maoist sister organizations and related trade unions organizations used to raise the voice to abrogate the 1950 treaty. Pathak writes, “the half-a-century old India-Nepal Treaty of 1950 has not been modified despite several informal talks at different times between the Prime Ministers of Nepal and India to revise it according to the needs, demand, and interests of the people.”²⁶⁸ Prime Minister Prachanda raised a voice for having a new

²⁶⁵Hutt, 285.

²⁶⁶Shah, 210.

²⁶⁷Ibid.

²⁶⁸Pathak, 3.

treaty with India as per the wishes of the Nepali people, and Indian Prime Minister Man Mohan Singh, who also supported Prachada, raised this concern while he was in India, and both India and Nepal formed a team to review it.²⁶⁹ But so far, there have been no reports regarding the progress of the team. Since the signing of the Indo-Nepalese Treaty of 1950, India has come to heavily dominate Nepalese politics. While the treaty acknowledges Nepal's sovereignty, clauses in the agreement give India a greater amount of control over Nepal than the Maoist government would prefer.²⁷⁰

Although the Maoist-led government initiated the need to amend the 1950 treaty, India, regards the 1950 treaty as valid, and insists upon full compliance of its provisions by Nepal.²⁷¹ Due to the controversial statement expressed by Indian political leaders, many Nepalese suspect India's intentions towards sovereignty, integrity, independence, and security of Nepal. Pathak, writes what a news media *The Kathmandu* stated:

Instead of taking concrete steps to revise the treaty, a senior Indian politician made a very controversial statement against the sovereignty of Nepal. In an interview to *News Today*, a senior leader of Bharatiya Janata Party and a minister of state for external Affairs K R Malkani astonished the Nepalese people when he stated that India's founding Prime Minister Jawaharlal Nehru should have accepted the accession of Nepal into India in the 1950s, when it was offered by King Tribhuwan. When asked if it would have been better had Nepal become a part of India like Sikkim in 1976, Malkani has replied: of course, of course.²⁷²

In the Joint communiqué signed between Nepal and India in 1990, India undertook certain commitments with regards to Nepalese exports and imports. With this

²⁶⁹Ibid.

²⁷⁰Vela, "China-Nepal ties reach new heights."

²⁷¹Subedi, 3-5.

²⁷²Pathak, 4.

agreement, India was able to restore tariff preferences to Indian goods by, *inter alia*, an exemption of additional customs duty.²⁷³ Another issue of the Joint communiqué describes Nepali rivers as “common rivers,” a concept which weakens Nepal’s bargaining power with India when it comes to negotiating the economic cooperation projects regarding the exploitation of Nepalese rivers to generate power or other projects concerning flood control and irrigation.

There have been no issues reported between Nepal and China regarding the treaties or agreements since Nepal and China agreed and concluded their boundary agreement in October 1961. The treaties and agreement concluded between Nepal and China have always described, in the preamble, an agreement of “non-interference” in each other’s internal affairs. As a result, China has largely kept a distance from the internal political affairs of Nepal since the establishment of a diplomatic relationship in 1955.

The diplomatic relations of Nepal with India and China, especially, since 1962 needs to be evaluated from the regional perspectives too. Nepal has remained not an only country in South Asia, which faced difficulties in managing its political relationship with India. The political turbulence was also significant with other countries due to India’s policy in dealing with smaller neighbors. Barbara Crossette, a former foreign correspondent of *The New York Times*, writes:

Politically, every one of India’s smaller neighbors has been the victim of Kautilyan intrigue since the death of Nehru in 1964 and the subsequent consolidation of power by his daughter, Indira Gandhi, a few years later. Except for two brief historical moments in 1977-1979 under a Janta Party government and in 1989-1990 when Prime Minister Vishwanath Pratap Singh and his foreign minister, Inder Kumar Gujral, pledged to stop playing dirty tricks on the

²⁷³Subedi, 10.

neighbors, Indian policymaking on Sri Lanka, Bangladesh, Nepal, Bhutan, and to some extent Maldives and Pakistan (a special case) was a game for intelligence agents, schemers in the Ministry of External Affairs, and viceregal diplomats in imperial cloaks.²⁷⁴

For decades, India blocked or discouraged the establishment of no-stop air connections between Delhi and the neighboring capitals of Colombo, Dhaka, and Islamabad, and strictly limited the number of Indian airports where foreign flights were permitted to land or the routes they could fly. India has opposed all efforts by Bangladesh to promote international management of the huge river systems that perennially threaten that small nation. Crossette further writes:

Seen from a closer vantage point, from the smaller nations that must live perennially in India's shadow, this mammoth land is not a gallery of glories but a source of insecurity and a massive stumbling block to regional development. Because of India's overwhelming presence and its penchant for micromanaging regional affairs, no major development takes place without Indian approval or involvement.²⁷⁵

The 1988-1990 Nepal-India crises created a new dynamic in the relationship of a small South Asian country with India and China in the region. It created a fear and mistrust in diplomatic dealings with India, and to some extent, India has been the loser. The anti-Indian sentiments have been growing, and small countries have been substantially developing their relationship with China over the years, to get more benefit from the economic rise and the Chinese policy of "non intervention" in the internal affairs. China was and has been looking for such type of an environment since the 1962 war, by which it could exploit the regional situation to its full advantage, and in doing so,

²⁷⁴Crossette, 110.

²⁷⁵Ibid., 109.

see that her interests were secured. Crossette, writes what India's foreign policy analyst, Bhabani Sen Gupta, outlined in an interview,

Our special relationship with Nepal is dead. They will not trust us with their water resources, which are important for us. Bangladesh has the same attitude. We have done no homework on our relationship in the region. We need new neighborhood policies; for too long our relationship have been victims of ad-hocism, with no constructive ideas coming from India, the natural regional leader. A renewed fear of China, more than the trade issues or hostility to King Birendra, was the primary cause of New Delhi's overreaction to Nepal's small step towards asserting itself. Nepal formed a corridor from Chinese Tibet into heart of India, and by 1989, Moscow had made it clear to India that it could expect no assistance if New Delhi got into another conflict with Beijing. But for more than a quarter of century, Indian policies have been pushing regional nations closer to the Chinese, who cannot ignore New Delhi's repeated interventions in neighbor's affairs. China does not assume automatically that India should enjoy hegemony in South Asia. "When neighbors of India cry out, China cannot dismiss them."²⁷⁶

The India-China rivalry since the 1962 war has remained another factor in managing the relationships with India and China, not only for Nepal, but also for other South Asian nations. The effect has been seen more in the relationship with India than with China due to China's policy of distancing on others' internal affairs. Howard B. Schaffer, a western writer, states, "One of India's most basic objectives from Nehru's time to the present has been to emulate the British in staving off any significant outside political influence or military presence elsewhere in South Asia, except on New Delhi's own terms."²⁷⁷ In this context, India has aspired to become the security manager for South Asia. It has sought, with varying degrees of success, to look to India to provide order and stability, and to protect them from outside threats, real or imagined. These

²⁷⁶Ibid., 113-114.

²⁷⁷Howard B. Schaffer, "Foreign Relations," in *India Briefing: A Transformative Fifty Years*, eds., Marshall Bouton and Philip Oldenburg (New York: M.E. Sharpe, 1999), 135.

neighbors have not welcomed India's role as a regional policeman. Pakistan, of course, has forcefully rejected it.²⁷⁸ Stephen P. Cohen, senior fellow, foreign policy, argues that:

Pakistani strategists view the accommodation of Nepal, Sri Lanka, Bhutan, and even Bangladesh as precisely the wrong model for Islamabad. These states have lost their freedom of action, they have been penetrated by Indian cultures, and New Delhi has undue influence on their domestic politics, even intervening by force where necessary.²⁷⁹

Part 3: Informational

The dimension and extent of information sharing with India and China is mostly analyzed from linguistic, religious, ethnicity and socio-cultural aspects. Based on these dimensions, other aspects such as tourism, employment and educational activities of Nepal with India and China are also analyzed.

Language

The official language of Nepal is Nepali, and is also one of the mother tongue languages in Nepal. There are as many as 126 languages spoken in Nepal. Apart from Nepali, Awadhi, Newari, and Hindi are most commonly spoken languages. In addition to Nepal, this language is spoken in India and Bhutan. Approximately 35 million people speak the Nepali language out of 1.567 billion population of South Asia.²⁸⁰ Nepali is as similar to Hindi, the national language of India, as Spanish to Italian.²⁸¹ There is a

²⁷⁸Ibid.

²⁷⁹Stephen P. Cohen, *India: Emerging Power* (Washington, DC: Brookings Institution Press, 2001), 207.

²⁸⁰SAARC Tourism.org, Languages of Nepal, <http://nepal.saarctourism.org/language-of-nepal.html> (accessed 30 August 2010).

²⁸¹Hutt, 8.

particularly close relationship between the more formal, literary styles, as both languages borrow technical terms directly from Sanskrit, the classical language of India. The script of Nepali and Hindi language is based on Devanagiri script.²⁸²

In Nepal, 47.8 percent people speak the Nepali language, 12.1 percent speak the Maithali language and the remaining 40.1 percent speak their ethnicity-based language.²⁸³ In India, 41 percent of the population speaks the Hindi language, and out of the remaining 59 percent, 1.3 percent speaks Assamese, 1.2 Percent speaks Maithili, and other languages.²⁸⁴ The Nepali language is one of 22 official languages of India, incorporated in the 8th schedule of the Constitution of India.²⁸⁵ In India, the influence of the Nepali language can be seen in the state of Sikkim as well as the Darjeeling district of West Bengal, where it has been declared the official language. It is also widely spoken in the states of Uttaranchal and Assam of India.²⁸⁶ The official and the major language of China is standard Chinese or Mandarin. The Chinese languages are Mandarin, Cantonese, Shanghainese, Fuzhou, and others based on the ethnic groups.²⁸⁷ No similarity has been

²⁸²Nepali Language, [iloveindia.com](http://loveindia.com), <http://languages.iloveindia.com/nepali.html>, (accessed 4 September 2010).

²⁸³Central Intelligence Agency, The World Fact Book, South Asia: India, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html> (accessed 4 September 2010).

²⁸⁴Ibid.

²⁸⁵Nepali Language.

²⁸⁶Ibid.

²⁸⁷Central Intelligence Agency, The World Fact Book, China, People, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (accessed 2 September 2010).

found between the Nepali language and the Chinese language, either in script or in verbal prose.

Religion

The major religion of Nepal is Hindu. It was an only-Hindu Kingdom in the World before it was declared as a secular state in 2007. The population of Hindu in Nepal is 80.6 percent.²⁸⁸ The Hindu religion is the major religion of India, and it accounts 80.5 percent.²⁸⁹ The Hindu population of Nepal and India follow almost the same rituals, because of the caste-based system in the Hindu religion. The sacred God of the Hindu religion is Lord Shiva, whose temple is located in Kathmandu. The Hindu people of India pay their religious visit to the temple at least once in their lifetime. In 2009, out of a total 93,884 Indian tourists, 12,406 visited Nepal for the purpose of pilgrimage.²⁹⁰ Similarly, there are sacred Hindu religious places in India, commonly known as *Char Dham*,²⁹¹ where the Nepali people pay their religious visit.

The official religion of China is atheist; Daoist and Buddhist that constitute the major percentages next to Christian, at 3 to 4 percentage, and Muslim 1 to 2

²⁸⁸Central Intelligence Agency, The World Fact Book, South Asia, Nepal.

²⁸⁹Central Intelligence Agency, The World Fact Book, South Asia, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>, (accessed 4 September 2010).

²⁹⁰Ministry of Tourism and Civil Aviation, Nepal Tourism Statistics 2009, 29 <http://www.tourism.gov.np/statistics/final-stat-book-2009.pdf> (accessed 26 August 2010).

²⁹¹Four sacred religious places in India, where Hindu people believe that they should pay their visit at least once in a life time.

percentage.²⁹² Besides 80.6 percentages of Hindu population, Buddhist constitutes 10.7 percentages in Nepal. The Buddhist populations of both Nepal and China are similar in their religious practices due to the common culture. The Chinese people mainly pay their visit to the Birth Place of Lord Buddha at Lumbini, Nepal and other Buddhist shrines and monasteries located at Kathmandu and surrounding areas. In 2009, 3,406 Chinese tourists visited Nepal for the purpose of pilgrimage. The number of Indian pilgrimages in the same year was 12,406--three times higher than China.²⁹³

Ethnicity

Nepal has ethnic similarities with China and India (see table 2). Indo-Aryan and Mongol are two ethnic classifications in Nepal. Out of total 19 ethnic groups, 13 are Mongoloid and 6 are Indo-Aryan.²⁹⁴ The major ethnic groups in China are Han Chinese, which constitutes 91.5 percentages, and out of the other 8.5 percentage, Mongol is also one of the ethnic groups in China.²⁹⁵

²⁹²US Department of State, Background Note: China, <http://www.state.gov/r/pa/ei/bgn/18902.htm> (accessed 29 September 2010).

²⁹³Ministry of Tourism and Civil Aviation, Nepal, Tourism Statistics 2009, 15-19.

²⁹⁴Harka Gurung, "Ethnic Demography of Nepal," Democracy Nepal: Gateway to Nepali Politics and Civil Society, http://www.nepaldemocracy.org/ethnicity/ethnic_demography.htm (accessed 27 August 2010).

²⁹⁵Central Intelligence Agency, The World Fact Book, China, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (accessed 3 September 2010).

Table 2. Ethnic Demographics of Nepal, India, and China

S.N.	Major Demographic Elements		Nepal	India	China
1.	Language	Major	a. Nepali 47.8%	a. Hindi 41% b. English enjoys the status of subsidiary official language.	a. Standard Chinese or Mandarin
		Others	a. Maithali 12.1% b. Bhojpuri 7.4% c. Tharu 5.8% d. Tamang 5.1% e. Newar 3.6% f. Magar 3.3% g. Awadhi 2.4% h. Other 10% i. Many in government and business also speak English	a. Bengali 8.1% b. Telugu 7.2% c. Marathi 7% d. Tamil 5.9% e. Urdu 5% f. Gujarati 4.5% g. Kannada 3.7% h. Malayalam 3.2% i. Oriya 3.2% j. Punjabi 2.8% k. Assamese 1.3 % l. Maithili 1.2% m. other 5.9%	a. Yue (Cantonese) b. Wu (Shanghainese) c. Minbei (Fuzhou) d. Minnan (Hokkien-Taiwanese) e. Xiang h. Gan i. Hakka dialects j. minority languages
2.	Religion	Major	a. Hindu 80.6%	a. Hindu 80.5%	a. Officially atheist Daoist (Taoist), Buddhist
		Others	a. Buddhist 10.7% b. Muslim 4.2% c. Others including Christianity 4%	a. Muslim 13.4% b. Christian 2.3% c. Sikh 1.9% d. Other 1.8% e. Unspecified 0.1%	a. Christian 3-4% b. Muslim 1-2%
3.	Ethnic Groups	Major	a. Chhettri 15.5% b. Brahman 12.5%	a. Indo-Aryan 72%	a. Han Chinese 91.5%
		Others	a. Magar 7% b. Tharu 6.6% c. Tamang 5.5% d. Newar 5.4% e. Muslim 4.2% f. Kami 3.9% g. Yadav 3.9% h. other 32.7% i. Unspecified 2.8%	b. Dravidian 25% c. Mongoloid and other 3%	b. Zhuang, Manchu, Hui, Miao, Uighur, Tujia, Yi, Mongol, Tibetan, Buyi, Dong, Yao, Korean, and other nationalities 8.5%

Source: Created by author using data from Central Intelligence Agency, The World Fact Book, <https://www.cia.gov/library/publications/the-world-factbook/index.html> (accessed 26 August 2010); US Department of State, Country Profile, <http://www.state.gov/p/> (accessed 26 August 2010).

According to the China Study Centers, Mongol ethnic groups from eastern, central and western mountains of Nepal have kinship ties and have been conducting cultural and trade interactions with China's Tibet region for centuries.²⁹⁶ The major ethnic

²⁹⁶China Study Center, Nepal, Context, <http://www.cscnepal.org.np/about.php> (accessed 24 April 2010).

groups of India are; Indo-Aryan, 72 percent, Dravidian, 25 percent, and Mongoloid and others, 3 percent.²⁹⁷ The ethnic similarities between Nepal and India are mainly due to the Indo-Aryan population, and they also share the caste-based system in the Indo-Aryan group.

Tourism and Cultural Cooperation

Nepal is a beautiful country and a good destination for tourism. According to the statistics of Nepal's Ministry of Tourism, since 1991-2009, out of the total 75, 01,542 tourists that visited Nepal, the number of Indian tourists was 19, 17,010, that constitute 25.55 percentages of total number of tourists in Nepal.²⁹⁸ On the same statistics, the number of Chinese tourists' has not been specified separately under the major nationalities of the tourists. Nonetheless, under the "others," the average number of tourists since 1991 to 2009, accounts for 23.8 percentages.²⁹⁹ The number of Chinese tourists may have been included under the "others" due to insignificant numbers. Prior to 1991, the number of Chinese tourists may have less than 1347. According to the statistics of Federation of Nepalese Chambers of Commerce and Industry, the average number of Chinese tourists, annually, since the period from 1999 to 2009 has remained 16,403, Whereas, Indian tourists, has remained 100,895.³⁰⁰ In the year 2009, the number of

²⁹⁷Central Intelligence Agency, The World Fact Book, South Asia: India.

²⁹⁸Ministry of Tourism and Civil Aviation, Nepal, Tourism Statistics 2009, 15-19.

²⁹⁹Ibid., 30.

³⁰⁰Uday Bohara, Federation of Nepalese Chambers of Commerce and Industry, Kathmandu, Nepal, udaya@fncci.org (received via email 14 September 2010).

Chinese tourists was 32, 272, whereas Indian tourists equaled 93,884.³⁰¹ The number of Chinese tourists has increased significantly towards 2010 (see table 3).

Table 3. Tourists arrival in Nepal 2009-2010 (By air only)

S.N	Nationality	July			January-July		
		2009	2010	% Change	2009	2010	% Change
1.	China	711	1452	104.2	8,034	13,563	68.8
2.	India	7,664	9696	26.5	52942	60,010	13.4
3.	Third Country Total	15,602	19,642	25.9	136,624	165,647	21.2
4.	Total	23,266	29,338	26.1	189,566	225,657	19.0

Source: Ministry of Tourism and Civil Aviation, Nepal, Monthly Report 2010, 2
<http://www.tourism.gov.np/statistics/half-yearly.pdf> (accessed 5 September 2010)

The cultural exchange between Nepal and India, has been facilitated due to the treaty arrangement. The 1950 Treaty of Peace and Friendship provides such provisions between these countries. Article Seven of the treaty states that:

The Government of India and Nepal agree to grant, on reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and privileges of a similar nature.³⁰²

The 1956 Agreement and the 1960 Treaty between Nepal and China has also provisioned the arrangement for cultural exchange. Article Four of the 1956 agreements and Article Three of the 1960 treaty states that:

In order to maintain and develop the traditional contacts between the Peoples of the Tibet Region of China and Nepal the High Contracting Parties agree that the nationals of both Parties may trade, travel, and pilgrimage in those

³⁰¹Ministry of Tourism and Civil Aviation, Nepal, Tourism Statistics 2009, 30.

³⁰²Subedi, 193.

places in each other's territory as agreed upon by both Parties, and the two Parties agree to safeguard the proper interests of the nationals of the other Party in its territory in accordance with the country of residence, and for the purpose the High Contracting Parties agree to do as follows.³⁰³

The Contracting Parties agree to develop and further strengthened the economic and cultural ties between the two countries in a spirit of friendship and cooperation, in accordance with the principles of equality and mutual benefit and of non-interference in each other's internal affairs.³⁰⁴

There is no visa requirement for Nepalese people to go to India and vice versa.

Since historic times, people of both the countries freely travel and engage in business, religious, social-cultural, and a range of other informational activities. The case with China is different. The nationals of both countries require a visa to travel. According to the visa free agreement between Nepal and China, Nepalese Diplomatic-Official passport holders can visit and stay in China without a visa for 30 days. Nepalese Diplomatic-Official passport holders should apply for a Hong Kong visa if they will transit-visit the Hong Kong Special Administrative Region of the People's Republic of China. To Visit the Tibet Autonomous Region of the People's Republic of China, a visa application has to be submitted to the Tibet Tourism Bureau through travel agencies for a travel permit. Applicants who want to travel around China by self-prepared vehicles or by other special means should contact an international travel agency in China and provide application

³⁰³Jain, 287-88.

³⁰⁴Ibid., 319-20.

documents.³⁰⁵ This is one of the reasons, due to which cultural exchange has been relatively insignificant with China, despite the treaty provision.

The Indian Cultural Centre in Kathmandu was launched in August 2007, with the objective to enforce the cultural ties between India and Nepal. It is among 22 such Centers and sub-Centers worldwide which are run by the Indian Council for Cultural Relations. India also established a Library in Kathmandu in 1965. The Embassy of India in Nepal claims that it remains one of the biggest and most extensively-used centers of study and research in Kathmandu.³⁰⁶

Nepal and China have concluded a Memorandum of Understanding on cultural cooperation in 1995.³⁰⁷ In addition, China has been assisting to promote the China Study Center in Nepal. The center was established in September 2006, as a non-partisan, non-profit, non-governmental organization.³⁰⁸ Its head office is at Kathmandu, and ten branches are spread across the country. Out of ten, seven are in the southern areas, mostly in the district bordering India, which has often raised a concern for India.

In addition to the China Study Center, the “Confucius Institute” was established in Nepal in June 2010. During the opening ceremony of the Institute, Chinese

³⁰⁵Embassy of the People’s Republic of China, Kathmandu, Nepal, Visa of the People’s Republic of China, 31 Mach 2009, <http://np.china-embassy.org/eng/ConsularService/t555055.htm> (accessed 4 September 2010).

³⁰⁶Embassy of India, Kathmandu, Nepal, Culture, <http://www.indianembassy.org.np/nepal-bharat-library.php> (accessed 7 September 2010).

³⁰⁷Ministry of Foreign Affairs, Government of Nepal, Nepal-China Relations, <http://www.mofa.gov.np/bilateralRelation/nepal-china.php> (accessed 23 July 2010).

³⁰⁸China Study Center, Nepal, Context.

Ambassador to Nepal Zheng Xianglin stressed in his speech that the Confucius Institute in Kathmandu University symbolizes the in-depth development of the traditional Sino-Nepal friendship, and the cooperative achievements in the field of culture and education.³⁰⁹

Media

India and China have broadcast news and various other programs in the Nepali language from their radio services. China has been broadcasting since ‘China Radio International--Nepali Service’ was first established in 1975. China funded a metro television channel run by Nepal’s Government-owned Nepal Television Service in October 2003.³¹⁰ India broadcasts the ‘Nepali Radio Service’ that mainly covers news and other cultural programs. Besides Radio service programs, India launched a Nepali language Television channel, “Nepal-1,” in January 2003 from its studios located in New Delhi.³¹¹

Educational Program

Nepal has an educational relationship with India and China. Nepali students go to India and China for scholarship programs provided by the respective governments.

³⁰⁹Confucius Institute, “Nepal's first Confucius Institute in Kathmandu University held a grand unveiling ceremony,” <http://www.ku.edu.np/ci/index.php?go=nepalfirst> (accessed 7 September 2010).

³¹⁰Adhikary, “Television Takes Nepal to New Heights,” *Asia Times* online, 27 January 2010, http://www.atimes.com/atimes/South_Asia/FA07Df02.html (accessed 8 August 2010).

³¹¹*Ibid.*

According to the Embassy of the People's Republic of China in Nepal, Chinese government full scholarship students' admission was successfully finished, and the students left for China in September 2007.³¹² China provides 100 scholarships annually to Nepalese students to study in China.³¹³

India has been providing a significant number of scholarship programs to Nepal. Around 1500 scholarships are provided every year by the Government of India to Nepali nationals for undergoing various graduate and post-graduate courses in India as well as in Nepal.³¹⁴ The scholarship programs have also been provided to the personnel of the Government of Nepal, with the aim of providing comprehensive and integrated training to Public Sector employees.³¹⁵

Employment Sector

The people of Nepal go to both India and China for employment. The formal entrance of Nepalese people for employment in India started when they signed the 1816 Treaty of Sugauli. The recruitment of 4,656 Nepalese in the British Gurkha regiment in India is the first accounted evidence of Nepalese citizens employed in India.³¹⁶ A retired

³¹²Embassy of the People's Republic of China, Kathmandu, Nepal, Education, 10 September 2007, <http://np.china-embassy.org/eng/Education/t363766.htm> (accessed 7 September 2010).

³¹³Ministry of Foreign Affairs, Government of Nepal, Nepal-China Relations.

³¹⁴Embassy of India, Kathmandu, Nepal, Education and Scholarship, <http://www.indianembassy.org.np/education-and-scholarship.php> (accessed 7 September 2010).

³¹⁵Ibid.

³¹⁶Bhattra, "Open borders, Closed Citizenship."

Indian Army General, Ashok K. Mehta, who served in the Indian Gurkha Regiments, states that, “even before the British recruited the first Gurkha soldier, the Gurkhas had been enlisting in Maharaja Ranjit Singh’s Armies in Lahore, India.”³¹⁷ A tri-partite agreement was signed between Nepal, India, and the United Kingdom after partition to retain Gurkha services in the British and Indian Armies, which still permits India and Great Britain to recruit Nepali citizens in their armies.³¹⁸

At the time of Partition of India in 1947, the Gurkhas were divided between the British and Indian Armies. The 2, 6, 7, and 10 Gurkha Rifles went to Great Britain and 1,3,4,5, and 9 Gurkha Rifles to India. In 1948, India added the another Gurkha unit, 11 Gurkha Rifles, accounting for nearly 100,000 Nepali domiciled soldiers in 38 Infantry Battalions and another 50,000 served in the state police forces.³¹⁹ At present, about 35,000 Nepalese citizens are serving in the 38 Gurkha battalions, and one artillery unit-- 64 Field regiments.³²⁰

The precise numbers of those working in the informal sectors in India are hard to estimate due to the open borders and various natures of employment--seasonal labor, employment in private sector, police and menial jobs, etc. India is a preferred destination because of its geographical proximity, cultural affinities, easily convertible currency, easy and affordable traveling options, and histories of migration in families and villages.

³¹⁷ Ashok K. Mehta, “Ex-Servicemen and India-Nepal Relations,” in *India-Nepal Relation: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004), 89.

³¹⁸ Subedi, 231.

³¹⁹ Mehta, “Ex-Servicemen and India-Nepal Relations,” 89.

³²⁰ Ibid., 94.

The employment of Nepalese people in China has not been accounted for until 2009. Large numbers of Nepalese people, mainly the families of British Gurkha units, used to stay in Hong Kong when it was under the control of Great Britain until 1997. The Hong Kong born children of British Gurkha soldiers received their citizenship automatically from the Hong Kong government, and citizenship may have attracted some to reside there.³²¹ According to the estimate of 2001, the out-migration to Hong Kong accounted for two percent, and out-migration to India accounted for 77 percent of the total out-migration. The estimate of 2008 has shown that out of the total out-migrations of 116,1409, the out-migration to Hong Kong was 4,210 which is 0.36 percent.³²²

The employment of Nepali people in Macau, especially by the police force, security guard companies, and hotel industry, started mainly before it came under China's sovereignty from Portuguese control in 1999. Recently, news media reports showed that large numbers of employers in Macau have started firing Nepali migrant workers along with other foreign workers, following the government's decision to give priority to its citizens in employment. According to a Nepal based new source, 153 Nepali migrant workers have been fired in the recent days from various big casinos, hotels and security companies and some of those people have worked in Macau for up to 11 years.³²³

³²¹The Free Library, "International migration and local development in Nepal," <http://www.thefreelibrary.com/International+migration+and+local+development+in+Nepal-a0215924572> (accessed 28 August 2010).

³²²Ibid.

³²³Nepalnews.com, "153 Nepali migrant workers lose jobs in Macau," 5 August 2010, <http://www.nepalnews.com/main/index.php/business-a-economy/8111-153-nepali-migrant-workers-lose-jobs-in-macau.html> (accessed 1 September 2010).

The range of activities of Nepal with China and India shows that informational activities are more prominent between Nepal and India as compared to China. The initiation of informational activities between Nepal and China thus far has been mainly observed at the official level. The sharing of information between Nepal and India has been extensive at both the people-to-people level and government-levels. The open borders between Nepal and India have naturally promoted social and cultural interactions among the nationals of both sides through matrimonial relationships as well.³²⁴ The socio-cultural dynamics and employment aspect has remained the existing and potential “key areas of interest” in the informational relations of Nepal with India. India equally desires to preserve its cultural interest due to common religious belief.

Part 4: Military

Nepal has maintained military relations with China and India since 1788 and 1816 respectively. Military relations have withstood multiple challenges including a series of wars, treaties, agreements, and security cooperation with China and India. Since 1951, military relation with India has been maintained by the 1950 Treaty of Peace and Friendship, the 1965 Arms Agreement, and the 1990 Joint communiqué, and with China, by the 1960 Treaty of Peace. Nepal’s military force of 95,000 is centrally situated

³²⁴Vidya Bir Singh Kansakar, “Nepal-India Open Border: Prospects, Problems and Challenges.” Democracy Nepal: A Gateway to Nepal’s Politics and Civil Society,” http://www.nepaldemocracy.org/documents/treaties_agreements/nep_india_open_border.htm (accessed 4 September 2010).

between the two military powers of China, with an active military strength of 2.2 million, and India, with a military strength of 1.4 million.³²⁵

Wars

Prior to 1951, Nepal fought a war with Tibet in 1788, and two wars with Tibet-China in 1791-1792, and 1855, and a war with the British East India Company in 1814-1816. After these wars, some degree of, conflict persisted primarily due to political reasons, but Nepal has not been involved in any significant conflicts or disputes with India or China.

War with Tibet and China

The Nepal-Tibet war of 1788 originated mainly due to the worsening of Nepal-Tibet relations, over the questions of currency, trans-Himalayan trade, and the internal conflict in Tibet vis-à-vis Nepal's drive for outward expansion. The Nepalese Army invaded Tibet in 1788, and reached Dzongkha and Shekar Dzong, two strategic towns deep inside Tibet. At that critical juncture, the Chinese resident in Tibet, Shulien, reported the matter to the Chinese Emperor, which eventually brought the Chinese army into Tibet. Finally, Nepal and Tibet came into a series of negotiations, and war was ended

³²⁵US Department of State, Nepal: Background Note, <http://www.state.gov/r/pa/ei/bgn/5283.htm>, GlobalFirePower.Com, "China Military Strength," http://www.globalfirepower.com/country-military-strength-detail.asp?country_id=China, US Department of State, India: Background Note, <http://www.state.gov/r/pa/ei/bgn/3454.htm> (accessed 10 September 2010).

in 1789.³²⁶ As a result of the war, Nepal developed political relations with Tibet and China. On the military side, Nepal started sending a Naikya³²⁷ at Lhasa, Tibet.

The second Nepal-Tibet war of 1791-1792 erupted when Nepal invaded Tibet, as some of the agreements of 1789 were violated by Tibet. The Nepalese forces defeated the Tibetan forces at the Tibetan town of Dirgacha, and forced them to retreat. Once the Nepalese forces came back to Nepal, the Tibetan Lamas and Chinese residents at Tibet complained to the Chinese Emperor about the Nepalese invasion, and sought military help from China. Consequently, the Chinese army invaded Nepal, and a war was fought in the northern border areas of Nepal, where Nepalese forces re-captured some of the strategic points occupied by Chinese forces.³²⁸ Nepal requested foreign support during the war, as Rose and Scholz, write: “Kathmandu appealed to the British for military assistance.”³²⁹ But no evidence supports such assistance.

A Treaty concluded with Tibet on 5 October 1792 not only provided China with the responsibility of coordinating future disputes between Nepal and Tibet, but also set a condition for military relations between Nepal and China.³³⁰ Under the treaty, Nepal and

³²⁶V. K. Manandhar, *Cultural and Political Aspects of Nepal-China Relations* (Delhi: Adroit Publisher, 1999), 11.

³²⁷Naikya was normally low-ranking civil or military title of Nepal’s government during that period.

³²⁸The Nepalese Army, 24.

³²⁹Rose and Scholz, 119.

³³⁰The Nepalese Army, 27.

China agreed that, “If Nepal be ever invaded by a foreign power, China would not fail to help her.”³³¹ Article Four of the Treaty states:

That if either of the two brotherly States should commence an unprovoked dispute with the intention of possessing the territories of the other, the representatives of the two Governments would report all particulars to the court of Beijing which would not fail to help her.³³²

Nepal declared war against Tibet in March 1855, when Nepal’s request to return the territories captured in 1791-1792 war, and trade-related issues were ignored by Tibet according to the 1792 treaty. The war ended up with a Treaty signed on 24 March 1856, when Nepalese forces won the battles.³³³ The cooperation regarding hand-over of the captured personnel to each other and withdrawal of troops, upgrading the rank of military or civil mission³³⁴ from Nepal to Lhasa, and extradition were the main features of the Treaty.³³⁵ Despite those issues, the Treaty did not deny the possibility of future war between Nepal, and Tibet-China. The preamble of the Treaty states: “May the Supreme Being not allow that side to prosper which may make war upon the other; and may the side be exempt from all sin in making war upon the other side which violates the terms contained in this agreement.”³³⁶

³³¹Jain, 281.

³³²Ibid.

³³³The Nepalese Army, 28.

³³⁴Article Five of the Treaty provisioned that Bharadar, high-ranking civil or military officers under the government of Nepal, to be stationed at Lhasa instead of Naikya.

³³⁵Jain, 281.

³³⁶Ibid., 282.

War with India

A war fought between Nepal and the British East India Company in 1814 to 1816 was the result of border tensions between Nepal and the British Raj, and Nepal's drive for westward expansion vis-à-vis the British East India Company trying to capture territories occupied by Nepal in order to open up a secure trade link to Tibet. Despite causing significant attrition and impeding the plans of the British East India Company, Nepalese forces withdrew, mainly due to the lack of extended logistic support and modern weapons systems as compared to the British East India Company.

The war concluded, signing the Treaty of Sugauli, on 4 March 1816.³³⁷ The Treaty created an obligation, on the part of Nepal, to align with the British East India Company, and restricted the desire to engage in any future conflicts with a neighboring Kingdom, Sikkim. Article Six of the treaty provided the British Government as an arbitrator in any future differences between Nepal and Sikkim, and Nepal was to abide by the decision of the British government.³³⁸ Furthermore, the treaty completely limited Nepal, on making its own decision on the use of military means, as an independent and sovereign nation. Nevertheless, during this war, Nepal had sought both material and political assistance from Chinese government, but no such assistance has been reported.³³⁹

³³⁷The Nepalese Army, 21.

³³⁸Subedi, 176.

³³⁹Rose and Scholz, 119.

Military Relations with India from 1816 to 1950

The military relations were strengthened when Nepal cooperated with the British Raj, as and when requested, by providing troops, in suppressing the Indian mutiny in 1857, the First World War, suppressing the revolt in Waziristan in 1917, and the Afghan war in 1919.³⁴⁰ During the First World War, the government of Nepal assisted in obtaining 55,000 recruits for the Gurkha regiments of the British Indian Army, and also sent some 18,000 of Nepal's own troops to India.³⁴¹ John Whelpton, a historian, writes that including the Nepalese in other units such as the military police in Burma, around 100,000 were involved in the war effort, with at least 10,000 killed and another 14,000 wounded or missing.³⁴² According to the *History of Nepal Army*, almost 200,000 troops participated in the First World War, as a part of the British Indian Army.³⁴³

The 1923 Treaty of Friendship concluded between Nepal and Great Britain provisioned the sharing of information regarding the mutual security of each other, which led to further strengthening their military relations. Article Four of the Treaty states, "Each of the High Contracting Parties will use all such measures as it may deem practicable to prevent its territories being used for purposes inimical to the security of the other."³⁴⁴ One of the significant features of the Treaty was that the British government

³⁴⁰The Nepalese Army, 30.

³⁴¹Whelpton, 64.

³⁴²Ibid.

³⁴³The Nepalese Army, 30.

³⁴⁴Subedi, 189.

agreed to allow Nepal to procure military hardware from other countries, and such provision was neither mentioned in the previous treaties nor did Nepal raise any issues regarding this to the British East India Company. Article Five of the Treaty states:

the British Government agrees that the Nepal Governments shall be free to import from or through British India into Nepal whatever arms, ammunition, machinery, warlike material or stores may be required or desired for the strength and welfare of Nepal, and that this arrangement shall hold good for all times as long as the British Government is satisfied that the intentions of the Nepal Government are friendly and that there is no immediate danger to India from such importations.³⁴⁵

One of the reasons to create such arrangement for Nepal, may have emerged, due to the situation likely to be created by the political instability in China, and its impact on the security of Nepal vis-à-vis the interests of the British Raj. Another reason may have been to equip well Nepal's military by providing the necessary military hardware, and in order to enhance their performance to work with British troops in future conflicts.

At the outbreak of the Second World War in 1939, Nepal declared support to Great Britain immediately, just as in the First World War.³⁴⁶ During this war, 18 Nepalese Battalions were deployed with British troops.³⁴⁷ According to the *History of Nepal Army*, “a bilateral Treaty was concluded between Nepal and Great Britain regarding the mobilization of Nepalese troops.”³⁴⁸

The series of military cooperation since 1857 facilitated Nepal's military relationship with the British Raj in India, until the independence of India, in 1947.

³⁴⁵Ibid.

³⁴⁶Whelpton, 67.

³⁴⁷The Nepalese Army, 32.

³⁴⁸Ibid.

Although, there was no declared military alliance, Nepal's military aligned with the British Raj in India, and accommodated itself in the best possible terms in the quest of its survival.

Military Relations with China from 1856 to 1950

After a series of war and treaties, China started considering Nepal as a "dependent state" and started dealing accordingly. Since 1856, there was neither a significant military threat perceived from China, nor a significant military relation was maintained, and this might have been due to Nepal's closer military relations with the British Raj, and the increased dominance of the British Empire in India. But in 1939, the statement issued by Mao Tse-tung, at the time, when his revolution was gaining considerable success, threatened Nepal. This situation further led to an increase in the ties between Nepal and the British Raj in India. The Mao Tse-tung Brochure of December 1939 states:

In defeating China in war, the imperialist States have taken away many Chinese dependent States and a part of her territories. Japan took away Korea, Taiwan and Ryuku Island, the Pescadores, Port Arthur; England seized Burma, Bhutan, Nepal and Hong Kong; France occupied Annam and even an insignificant country like Portugal took Macao.³⁴⁹

Military Relations Since 1951

Nepal-China

The military relations between Nepal and China have been guided by the diplomatic relations, established on 20 September 1955, based on five principles.³⁵⁰ Three principles; mutual respect for each other's territorial integrity and sovereignty,

³⁴⁹Jain, 284.

³⁵⁰Ibid., 287-288.

non-aggression, and peaceful co-existence could be considered as a common framework to maintain friendly military relations and to avoid conflict between these two countries. The Treaty of Peace and Friendship signed in 1960 also provided the continuity of the previous principles and strengthened the diplomatic relations, which obviously maintained the friendly military relations.³⁵¹ Military relations since the establishment of diplomatic relations through 2010, have been based on the above underlined principles, and guided by diplomatic relationships.

Nepal-India

Military relations between Nepal and India started immediately after the independence of India. Nepal's Prime Minister and Supreme Commander-in-Chief of Nepal, Padam Shamsher Jung Bahadur Rana, welcomed the proposal of India to maintain the recruitment of Gurkha soldiers in the newly-founded Indian Army in 1947.³⁵² The military relation was strengthened when Nepal's government provided troops, on the request of India, to help maintain order in the northern Indian city of Hyderabad, in 1949.³⁵³ A Treaty signed in the following year, the Treaty of Peace and Friendship, provisioned working jointly for the "mutual security" of both the countries.³⁵⁴ Such a provision itself almost denounced the possibility of evolving into conflict between Nepal and India. Article Two of the Treaty states; "The two governments undertake to inform

³⁵¹Ibid.

³⁵²Mehta, "Ex-Servicemen and India-Nepal Relations," 90.

³⁵³Whelpton, 70.

³⁵⁴Subedi, 191.

each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two governments.”³⁵⁵

Another agreement, according to the letter exchanged with the 1950 Treaty provided both the Governments agree not to employ any foreigner whose activity may be prejudicial to the security of the other.³⁵⁶

The 1950 Treaty cancelled all the arrangements of the previous Treaties, but gave continuity to import military hardware from or through the territories of India with one modification.³⁵⁷ The modification was the letter exchanged with the Treaty, which provided India more flexibility to decide on this matter by a clause--“with the assistance and agreement of the Government of India.”³⁵⁸ The letter exchanged also created a “military alliance” between Nepal and India; “Neither government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with any such threat, the two governments shall consult with each other and devise effective countermeasures.”³⁵⁹

The military relation was strengthened when an Indian military mission was established in Nepal in February 1952, at the request of the Government of Nepal.³⁶⁰ The task assigned to the mission was to reorganize, train, and equip the Royal Nepal Army.

³⁵⁵Ibid.

³⁵⁶Ibid., 194-195.

³⁵⁷Ibid., 192.

³⁵⁸Ibid., 194.

³⁵⁹Ibid.

³⁶⁰Malik, 90.

The military relations substantially increased when the Indian military group, numbering 75 personnel, established 17 check posts along the northern frontiers of Nepal in 1954.³⁶¹ Such agreement was mainly due to the growing Chinese threat in the aftermath of the invasion of Tibet by China in 1949.

The military cooperation, in conjunction with Nepal's support to strengthen security in the northern border, continued when Nepal's Prime Minister B. P. Koirala, announced a 100 percent increase in defense expenditures and agreed to the continued presence of Indian military monitors at points along the border in May 1959.³⁶² Since March 1959, when the tensions between Indian and China were growing in the wake of the revolt in Tibet and the Dalai Lama's flight to India, B.P., after becoming Prime Minister in May 1959, trod carefully to avoid entanglements which might have caused him to announce such military cooperation with India. However, after China took a conciliatory line towards Nepal in the intervening months, the Nepalese delegation abstained at the United Nations in autumn 1959 on a resolution censuring China's conduct, and B.P. subsequently rejected the idea of a defense pact between Nepal and India.³⁶³

Nepal and India concluded an Arms Assistance Agreement in 1965 that provided India as a sole supplier of military hardware to Nepal.³⁶⁴ Along with the military

³⁶¹Kumar, *Nepal: Year of Decision*, 198.

³⁶²Whelpton, 96.

³⁶³*Ibid.*

³⁶⁴Subedi, 9.

hardware, India took the responsibility of training and supplying logistics equipment for the Nepal Army. The agreement also provided India the flexibility to regulate Nepal's import of military hardware from other countries, especially the United States and the United Kingdom. Paragraph Four of the agreement states:

The Government of United Kingdom and the United States of America have given the Government of India to understand that if there are any shortfalls in the supply of arms and equipment by the Government of India, these two Governments will fill the gaps to the extent of their ability. At an appropriate time, the details can be suitably coordinated.³⁶⁵

The 1965 Arms Assistance Agreement was the outcome of a development in India's security assessment after the 1962 Sino-Indian border war. Given the neutral position maintained by Nepal in the Sino-Indian war, and the relatively closer relations developed by Nepal's King Mahendra with China since 1960, India felt that it is imperative to have a security pact with Nepal so that it does not fall into China's sphere of influence.

The Joint communiqué signed between Nepal and India in the aftermath of the 1988-1990 crises continued to strengthen the military relations between Nepal and India. The agreement provisioned that Nepal and India shall have a prior consultation with a view to reaching an agreement on defense-related matters which, in the view of either country, could pose a threat to its security.³⁶⁶

A great tradition has been observed in the military relationship between Nepal and India. Malik, writes "we have an extraordinary situation where the Chief of Army Staff of

³⁶⁵Ibid., 211-212.

³⁶⁶Ibid., 10.

one country is an Honorary Chief of the Army of the other country: a special privilege that is enjoyed by the Chiefs of both countries.”³⁶⁷ The present Chief of Army Staff of the Nepal Army, General Chhatra Man Singh Gurung, received an Honorary Chief of the Indian Army on 14 December 2009 from the Indian President.³⁶⁸ Similarly, the former Indian Chief of Army Staff, General Deepak Kapoor, received such title from the President of Nepal on 21 January 2010.³⁶⁹ This tradition has continued over the years. *The Times of India*, an Indian news media, writes on what a Indian Army Chief said:

We enjoy a ‘special military relationship,’ and we should try to make it exemplary for the rest of the world, in the days ahead, Gen Kapoor told the Principal Staff Officers of the Nepal Army at the Army Headquarters in Kathmandu. The Nepal Army and the Indian Army have traditional linkages, and this will not be affected by political changes and whoever heads the government.³⁷⁰

Security Cooperation

The security cooperation with India and China has been underlined in terms of military courses, training, and the Nepal Army receiving military aid from India and China. The training of personnel of the Nepal Army by the Indian Army date backs to

³⁶⁷Malik, 83.

³⁶⁸Nepalnews.com, “CoAS Gurung to Receive Title of Honorary General of Indian Army,” 10 December 2009, <http://www.nepalnews.com/main/index.php/news-archive/19-general/2833-coas-gurung-to-receive-title-of-honorary-general-of-indian-army-.html> 9 (accessed 25 September 2010).

³⁶⁹*The Times of India*, “Indian Army Chief Conferred Rank of General of Nepal Army,” 21 January 2010, <http://timesofindia.indiatimes.com/india/Indian-Army-chief-conferred-rank-of-General-of-Nepal-Army/articleshow/5485280.cms> (accessed 25 September 2010).

³⁷⁰*Ibid.*

1952, when an Indian military mission was established in Nepal.³⁷¹ The extensive security cooperation began when India started providing training to Nepal Army personnel in the military training institutions of India, after the 1965 Arms Agreements.

Paragraph 'C' of the Agreement states:

The Government of India undertakes to provide all training facilities required for the Nepalese Armed Forces personnel in the training establishments in India, as necessary, and also by sending training personnel to Nepal at the request of His Majesty's Government. During their training in India, adequate funds will be made available by the Government of India to enable them to meet expenses on a parity basis as incurred by the Indian military personnel of equivalent rank. The Government of India will also bear the expenses on account of lodging, including water charges and electricity, of such personnel. During the training, Nepalese officers will be given an allowance to enable them to defray the cost of incidental expenses, while other ranks will be provided with free messing.³⁷²

Security cooperation between Nepal and India gained new height after the political change of Nepal in 1990. Ashok K. Mehta, writes, "In 1990, a ten-year Rupees 500 crore re-equipment and modernization plan for the Royal Nepal Army was finalized."³⁷³ Although the scale of military assistance was reduced since 2001, India continued its assistance throughout the Maoist insurgency. Mehta, during the Maoist insurgency, stated that, "the plan of 1990 has been extended and military assistance is being provided on an enhanced scale to combat the current threat posed by the Maoist."³⁷⁴

³⁷¹Savada, *Nepal and Bhutan Country Studies*, 180.

³⁷²Subedi, 211.

³⁷³Mehta, "Ex-Servicemen and India-Nepal Relations," 91.

³⁷⁴*Ibid.*

Nepal Army has been receiving military hardware and logistic equipment from both India and China. Besides training in the Indian military institutions, Indian military aid to Nepal has been focused mostly in logistic equipments. India had been one of the major arms suppliers for the Nepal Army, with 70 percent of the aid provided to Nepal in grant form.³⁷⁵

Prior to 2005, China had not been a major provider of military assistance to Nepal.³⁷⁶ The assistance of China in terms of military aid increased after the political change. In September 2008, China announced military aid worth US\$ 1.3 million, the first such assistance to the Maoist government in Nepal.³⁷⁷ On 7 December 2008, during a meeting in Kathmandu between the Nepal Defence Minister and the Deputy Commander of China's People Liberation Army, China pledged to provide US\$ 2.6 million as military assistance for Nepal's security sector.³⁷⁸ On 16 December 2009, China further pledged to provide military aid worth about US\$ 3 million for the supply of "non-lethal" military hardware, including logistics and training to the Nepal Army.³⁷⁹

³⁷⁵BBC News, "India ends Military Aid to Nepal," 22 February 2005, http://news.bbc.co.uk/2/hi/south_asia/4287247.stm (accessed 25 September 2010).

³⁷⁶Amnesty International, "Dead on Time—Arms Transportation, Brokering and the Threat to Human Rights," 10 May 2006, 14, <http://www.amnesty.org/en/library/asset/ACT30/008/2006/en/ca2bf8eb-d434-11dd-8743-d305bea2b2c7/act300082006en.pdf> (accessed 28 September 2010).

³⁷⁷Bhattacharya, "China's Inroads into Nepal."

³⁷⁸Ibid.

³⁷⁹*Tibet Sun*, "China Pledges 3m USD Military Assistance to Nepal," 16 December 2009, <http://www.tibetsun.com/archive/2009/12/16/china-pledges-3m-usd-military-assistance-to-nepal/> (accessed 26 September 2010).

The security cooperation of Nepal with both India and China has been advancing in the recent days. Following China's increased military assistance; India decided to resume weapons and non-lethal military hardware to Nepal. The *Asian Defence News* and Nepal-based news media, *Republica*, writes "India, which has decided to resume military aid to Nepal, is likely to supply 50 phased-out tanks."³⁸⁰ Besides that, officer cadets from Nepal will get more seats in the Indian Military Academy for basic officer training. *Republica* further writes, "The Nepal Army has also enquired whether India can raise the supply of military hardware to the level prevalent nine years back."³⁸¹

Security cooperation has been enhanced by the exchange of training of personnel between the militaries of Nepal and China, and Nepal and India in the recent days. Although, Nepal Army, for the first time, sent an officer to attain military training in China on 29 September 1987, the figure accounts insignificant as compared to India.³⁸² At present, an average of 33 and 166 personnel have been attending military courses and training, annually, from China and India respectively (see table 4). The Nepal Army has been providing mountain warfare training to Indian Army personnel, and that accounts for an average of two people in a year. Since 2010, the Nepal Army has also started providing Command and Staff Courses to the officers of foreign armies, including India and China.

³⁸⁰Republica, "India likely to supply 50 phased-out tanks to Nepal," 16 December 2009, http://www.myrepublica.com/portal/index.php?action=news_details&news_id=12939 (accessed 4 September 2010).

³⁸¹Ibid.

³⁸²Director General of Military Training, Foreign Training Branch, Nepal Army, electronic correspondence by author, Fort Leavenworth, Kansas, 14 September 2010.

Table 4. Training of Nepal Army Personnel in Major Foreign Countries

Country	2007/2008	2008/2009	2009/2010 (Until August)
India	144	202	154
USA	144	98	138
China	25	41	35
UK	9	13	13

Source: Created by author with data obtained from Director General of Military Training, Foreign Training Branch, Nepal Army, Kathmandu, Nepal, Electronic correspondence by author, 14 September 2010.

Issues on Military Relations

Few issues of security nature created differences in diplomatic relations with India and China. The differences, neither occurred due to the military reasons, nor, was the military means employed to settle the differences. In fact, the differences surfaced due to political reasons created by the 1950 Treaty, the situation created by the Sino-Indian war of 1962, the Nepal-India Arms Agreements of 1965, and the Nepal-India political crises of 1988-1989.

Since the 1950 Treaty of Peace and Friendship, Nepal and India agreed on a mutual security arrangement to counter the “threat.” The threat, from the Indian standpoint, was no more than that of China because of the Chinese posture in the region created by Mao Tse-tung’s communist China in 1949. Traditionally, India considered Nepal an integral part of India’s security framework on the northern frontiers.³⁸³ Amal

³⁸³ Amal Jayawardena, “Changes in Power Structure and Security Perceptions in the South Asian Sub-system,” in *Security Dilemma of a Small State*, ed. P. V. J. Jayasekera (New Delhi: South Asian Publishers, 1992), 299.

Jayawardena, a Sri Lankan writer, states what Indian Prime Minister Jawaharlal Nehru mentioned in a speech to the Indian Parliament in December 1950:

From time immemorial, the Himalayas have provided us with magnificent frontiers. . . . We cannot allow that barrier to be penetrated because it is also the principal barrier to India. Therefore, much as we appreciate the independence of Nepal, we cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened, because that would be a risk to our own security.³⁸⁴

India apparently believed that Nepal's China policy had not taken into account India's security interests. The security provision of the 1950 Treaty provides Nepal and India to devise "effective countermeasures" to deal with any threat, but for India, the threat has remained and is likely to remain "China." Any military relations of Nepal with China have remained, and will remain, a matter of serious concern for India, given the scope of the rivalry between them. The security issues of the 1950 Treaty, the free import of military hardware and warlike materials through the Indian territory, required by Nepal has to be done with the assistance and agreement of India has limited Nepal's sovereign right as an independent country. The "security arrangement" between India and Nepal has remained one of the principal issues, raised over the years to abrogate, or to review the 1950 Treaty.

The reports that China killed Nepal's military personnel along the Nepal-China border also created tension in the relationship between Nepal and China. In June 1960, it was reported that one border patrol officer had been killed, and 15 soldiers captured by the Chinese in the Mustang border area.³⁸⁵ The Government of Nepal sent a strongly-

³⁸⁴Ibid.

³⁸⁵Rowland, 153.

worded protest to Beijing, demanding release of the captured Nepalese, and withdrawal of Chinese troops to the agreed-upon distance from the border. Beijing candidly admitted that Chinese troops had been on the border, rather than twelve and a half miles back, as required by the terms of the 21 March 1960 Temporary Boundary Agreement, but excused the violations on the specious grounds that a new Tibetan rebellion in the area had required the deployment of Chinese in the demilitarized boundary zone.³⁸⁶

The 1962 Sino-Indian war created the necessity on the part of Nepal to evaluate and effectively manage its security.³⁸⁷ In 1963, King Mahendra, during his visit to India, mentioned to the then-Indian Army Chief, General J.N. Chowdhary, that the Indian training team stationed in Nepal should be withdrawn in phases and reduced in strength.³⁸⁸ In view of this development, India started pulling out its military team from Nepal. Ashok K. Mehta, writes:

As the Royal Nepal Army progressively got into its feet; a new name was given to the training team--the Indian Military Liaison Group, and in 1966, the strength was lowered to 52 all ranks. The presence of Indian Military personnel in Nepal was resented by some Nepalese, especially the Communists who had become very vocal after the Indian defeat at the hands of Chinese in 1962.³⁸⁹

In the aftermath of 1962 Sino-Indian conflict, although Nepal remained opposed to any formal alliance, some degree of cooperation was maintained on defense issues as

³⁸⁶Ibid.

³⁸⁷Whelpton, 101-102.

³⁸⁸Mehta, "Ex-Servicemen and India-Nepal Relations," 90-91.

³⁸⁹Ibid.

per the 1965 Arms Agreement with India.³⁹⁰ However, in 1969, the government of King Mahendra further asked for the end of stationing Indian monitors on its northern border, and the Prime Minister, Kirtinidhi Bista, gave an interview implying that the semi-alliance established by the 1950 Treaty of Peace and Friendship was no longer relevant and explicitly renouncing the 1965 agreement.³⁹¹ Pathak, writes, “India unwillingly withdrew its forces and liaison group without abrogating the treaty.”³⁹² India wanted the pulling out of its wireless operators from Nepal’s northern border and the Military Liaison Group from Kathmandu to be followed by appropriate Nepalese steps aimed at eliminating possible security risks for India. D. P. Kumar, an Indian writer, states that, “on August 1970, the Indian Military Liaison Group, headed by Colonel R. J. Hirjee, was withdrawn by India.”³⁹³

Although the issues were of a military nature, the political relations between Nepal and India remained strained when Nepal purchased weapons from China in mid-1988. Andrea Matles Savada, writes that, “In an open challenge to India’s primacy in Nepal, Nepal negotiated a deal for the purchase of Chinese weapons, and according to India, this deal contravened an earlier agreement that obliged Nepal to secure all defense supplies from India”³⁹⁴ Nepal was, nevertheless, free to import from and through the

³⁹⁰Whelpton, 102.

³⁹¹Ibid.

³⁹²Pathak, 8.

³⁹³Kumar, *Nepal: Year of Decision*, 198.

³⁹⁴Savada, *Nepal and Bhutan Country Studies*, 187.

territory of India arms, ammunition, or warlike material and equipment necessary for the security of Nepal. From the Indian standpoint, this freedom, however, did not extend to the import of weapons by Nepal from or through China because it was India that was responsible for the supply of weapons to the entire Nepalese army. Subedi, writes, “However, for Nepal, this 1965 agreement no longer has any validity. According to the then-Nepalese Prime Minister, K. N. Bista, the agreement was cancelled by Nepal after consulting India sometime in 1966.”³⁹⁵ Kathmandu also announced that lower cost was the decisive factor in its purchasing arms and personnel carriers from China, and that Nepal was advising China to withhold delivery of the last shipment.³⁹⁶

The security relation of Nepal with countries except India has remained a constant source of worry for India. Josse, writes “a major positive change was registered in Nepal’s Army gradually replacing ‘Indian SLRs by American M-16s’ adding, ‘Indians don’t like it, but they can’t do anything about it.’”³⁹⁷ The direct assistance of the United States and United Kingdom to Nepal Army during the Maoist insurgency was a matter of serious concern for India. A cargo plane operated by the Bulgarian Vega Airlines, ferrying military equipment sent to Nepal by the United State Department of Defense, had been held up at the Indian airport of Ahmedabad and carefully inspected by Indian customs and secret services agents in September 2004.³⁹⁸ After an intervention by the

³⁹⁵Subedi, 10.

³⁹⁶Savada, *Nepal and Bhutan Country Studies*, 183.

³⁹⁷Josse.

³⁹⁸Amnesty International, 15.

United States Embassy in India, the cargo plane was released for Kathmandu. In addition to the military assistance of 2003 and 2004, Indian concern was further triggered when it came to know that the United States has planned to continue further assistance to Nepal. The Amnesty International on its reports of May 2006, writes:

the U.S. Department of Defense statistics show that Nepal received military equipment worth \$6.7 million in 2003 and had additional sales agreements with the U.S. Department of Defense for \$15.3 million. Early in 2005 the US President also requested US\$ 4 million for Foreign Military Financing and US\$ 650,000 for International Military Education and Training for Nepal for 2006. According to this budget request, the priorities for this funding were small arms, grenade launchers for the Rangers Battalion, night vision goggles, body armor, secure communication equipment, spare parts for mobility platforms and armor plating.³⁹⁹

India, which had been one of the major arms suppliers for the Nepal Army, halted all military aid on 22 February 2005, opposing King Gyanendra's takeover of power on 1 February 2005, calling for the restoration of multi-party democracy, release of detained political leaders, and constitutional monarchy.⁴⁰⁰ India resumed the supply of only the logistic support equipment on 7 July 2005 when the state of emergency was lifted, and the senior politicians were released by the Government in May 2005.⁴⁰¹ Although, India claimed that resumption of the supply was due to the change in political situation as demanded by India, however, it was mainly intended to timely stop Nepal extending towards other countries to manage its military supplies.

³⁹⁹Ibid.

⁴⁰⁰BBC News, "India ends Military Aid to Nepal."

⁴⁰¹BBC News, "India resumed Nepal Military Aid," 10 May 2005, http://news.bbc.co.uk/2/hi/south_asia/4531693.stm (accessed 25 September 2010).

When India halted its supplies, and also the United States and United Kingdom temporarily suspended their arms shipments to Nepal under pressure from human rights activists and organizations in early 2005, Nepal appears to be preparing to manage its supplies from China and it was another serious concern for India that might have led India to timely resume its supplies. Amnesty International writes, “King Gyanendra and his officials had responded to this halt of military aid with a quest for arms in international markets especially from Pakistan and China whose arms export policies do not in practice involve human rights considerations.”⁴⁰² In October 2005, the Chief of Army Staff of the Royal Nepalese Army, visited China and announced that he had secured a commitment from the Chinese government for military aid worth over US\$ 1 million.⁴⁰³ Amnesty International further writes, in November 2005, 18 Chinese military trucks had arrived at the Nepal-China border in Kodari accompanied by People’s Liberation Army officials.⁴⁰⁴ When India and Western nations including the United States cut or downgraded military links, China tried to balance the situation by extending military assistance to Nepal which was mainly directed to maintain a realization on the part of Nepal that China is ever supportive. Kaplan writes that “Beijing dramatically enhanced military links, for no other purpose, it seemed, than to balance against India.”⁴⁰⁵

⁴⁰²Amnesty International, 14.

⁴⁰³Ibid.

⁴⁰⁴Ibid.

⁴⁰⁵Kaplan, 127.

As China continued its military supplies to Nepal and even doubled the military aid during the Maoist government, India, in December 2009, agreed to resume the supply of weapons and non-lethal military hardware to Nepal that were banned after the king's direct takeover.⁴⁰⁶ But the actual reduction of Indian military assistance began in 2001, with the Maoist insurgency intensifying in Nepal.⁴⁰⁷

The principal reasons behind the reduction of normal military assistance since 2001 could be due to several reasons. First, as the relations between India and the Maoist were considerably increasing, the Maoist leader would have been able to influence the Indian coalition government through the Indian communist leaders. Second could be the Maoist getting weapons from the security forces, as the Maoist had started launching attacks on Nepal Army bases. And, the third could be India trying to create a situation in its favor when Nepal makes a hard request to resume the supply to fulfill its growing need to fight against the Maoist insurgency, which ultimately place India in a position to exercise a greater flexibility in Nepal's political affairs.

Nepal and India have shared a wide range of security cooperation, but the deep-rooted Indian security concern in Nepal has left suspicion about India's future intentions. The security provision of the 1950 Treaty of Peace and Friendship has provided India to pursue a focused concern on her security that arises from Nepal and its relations with China. Given the amount of latitude that India has exercised in its relationship with

⁴⁰⁶Republica, "India to resume military aid," 7 December 2009, http://www.myrepublica.com/portal/index.php?action=news_details&news_id=12618, (accessed 26 September 2010).

⁴⁰⁷Republica, "India likely to supply 50 phased-out tanks to Nepal."

Nepal, India always assumes that she has the “natural authority” to exercise control on security issues over Nepal. If India realizes that her security is severely threatened due to the political situation of Nepal vis-à-vis China’s growing interests in Nepal, India may intervene militarily in Nepal. The scope and duration of the intervention may be limited and transient, however, it will have a far-reaching implication on Nepal’s sovereignty vis-à-vis its relations with China. Cohen argues that:

The humiliation in Sri Lanka⁴⁰⁸ made Indians wary of using military power in the smaller states, but the possibility of future intervention in Nepal, Sri Lanka, or Bangladesh cannot be ruled out. The goal of such intervention might be to shore up a weak but pro-Indian government, to preempt the intervention of another power, or to assist a neighbor in containing a separatists or other movement that threatened Indian interests. The first is more likely in Nepal, the precedence being the airlift of a number of Indian troops to the Maldives to save a government under attack from mercenary forces.⁴⁰⁹

Part 5: Economic

Nepal’s commitment’s to economic transformation was given formal shape by the creation of the National Planning Commission in 1955, a move already overshadowed by Prime Minister Mohan Shamsheer’s 1949 Economic Planning Committee.⁴¹⁰ From 1956 onwards, Nepalese governments drew up a succession of ‘five-year plans,’ combining details of the government’s own projected expenditure on developments projects, general guidelines for the private sectors, and targets that the economy as a whole was expected

⁴⁰⁸India assisted Sri Lanka to fight the Liberation Tigers of Tamil Elam, separatists’ rebel forces, by sending Indian Peace Keeping Force in 1987 and withdrew in 1990. Tim Lambert, “A *brief History of Sri Lanka*,” <http://www.localhistories.org/srilanka.html> (accessed 28 September 2010).

⁴⁰⁹Cohen, 243.

⁴¹⁰Whelpton, 125.

to meet. In the early years, Nepal's infrastructure, in particular road-building, was given the highest priority, but there was also an emphasis on increasing agricultural production. In addition, the second five-year plan from 1960 to 1965 increased the budget allocation for industry from seven and half percent to 17 percent.⁴¹¹

The foreign aid era opened formally in January 1951, when Nepal signed an agreement to accept assistance under the United States' "Point Four" program and received a first token payment of US\$ 2000.⁴¹² Foreign funds, either as grants or "soft" loans, regularly made up more than half of the government's "development budget." This dependence peaked in the late 1980s, when the aid component reached around 80 percent, which is equivalent to 40 percent of all government spending. Grants from individual countries tended to be more common in the 1950s and 1960s, when geopolitical rivalries in the region were at their height.⁴¹³ Thereafter, loans and the roles of international agencies such as the Asian Development Bank, the United Nations Development Program, and the World Bank became more important.

Nepal has maintained dynamic economic relations with China and India. Nepal's economy is heavily dependent on agriculture and services, which accounts for 33 and 49 percent of the Gross Domestic Product (GDP) respectively.⁴¹⁴ The economy of China has

⁴¹¹Ibid., 125-126.

⁴¹²Ibid.

⁴¹³Ibid., 128.

⁴¹⁴Ministry of Finance, Government of Nepal, Economic Activities, 6, <http://www.mof.gov.np/publication/budget/2010/pdf/chapter1.pdf> (accessed 26 September).

been dependent on industry 46.8, services 42.6, and agriculture 10.6 percentages.⁴¹⁵ The economy of India has been dependent on services 54.9, industry 28.2, and agriculture 17 percentages. According to the estimate of 2009, Nepal's GDP per capita was US\$ 1,200 while China's and India's GDP per capita accounts US\$ 6,600 and US\$ 3,100 respectively.⁴¹⁶ In 2009, Nepal's GDP by purchasing power parity was US\$ 33.66 billion and ranked 101 in comparison to the World rankings. India's and China's GDP by purchasing power parity was US\$ 3.57 trillion and ranked 5th, and US\$ 8.748 trillion that ranked 3rd in the World respectively.⁴¹⁷ Nepal, situated between two economically powerful countries, has extensively maintained economic relations since 1950 in order to establish an infrastructure for economic development.

Treaties and Agreements

Nepal-China Prior to 1951

Nepal established formal economic ties with China in the Eighteenth Century. Economic relations with Tibet and China were based on the Tibeto-Nepalese Treaty of 1792. Article Three of the treaty states; "that all Nepalese subjects; with the exception of armed soldiers would be permitted to travel, to establish factories and to carry on trade within the jurisdiction of Tibet and China."⁴¹⁸ The economic relation was further strengthened when Nepal and Tibet signed another treaty on 24 March 1856. Article

⁴¹⁵Central Intelligence Agency, The World Fact Book, China.

⁴¹⁶Central Intelligence Agency, The World Fact Book, India.

⁴¹⁷Ibid.

⁴¹⁸Jain, 281.

Three of this treaty states that, “Tibet shall not levy any taxes on routes, duties on merchandise, and rates of any other kind leviable by Tibet on the merchants and subjects of the country of Gorkha.”⁴¹⁹ Article Six of the same treaty also provided similar provision to strengthen economic relations: “The Gorkha Government⁴²⁰ will establish its own trade factory at Lhasa which will be allowed to trade freely in all kinds of merchandise from gems and ornaments to articles of clothing and food.”⁴²¹

Nepal-India Prior to 1951

Nepal signed a treaty of commerce with the British East India Company on 1 March 1792.⁴²² The treaty set the conditions to regulate trade between Nepal and the British East India Company. Article One of the treaty states:

Inasmuch as an attention to the general welfare, and to the ease and satisfaction of the merchants and traders, tends equally to the reputation of the administrators of both Governments of the Company of Nepal; it is therefore agreed and stipulated, that 2 ½ percent shall reciprocally be taken, as duty, on the imports from both Countries.⁴²³

The 1816 Sugauli treaty, also provided continuity in their previous economic relations. Article Six of the 1923 treaty further strengthened their economic ties:

No Customs duty shall be levied at British Indian ports on goods imported on behalf of the Nepal Government of immediate transport to that country. . . .

⁴¹⁹Ibid., 282.

⁴²⁰Gorkha is a small mid-western hill town in Nepal from where the first king of Nepal Prithvi Narayan Shah launched his successful unification campaign from 1743-1768. Whelpton, 35.

⁴²¹Jain, 283.

⁴²²Subedi, 165.

⁴²³Ibid.

The British Government also agrees to the grant in respect of all trade goods, imported at British Indian ports for immediate transmission to Katmandu without breaking bulk en route, of a rebate of the full duty paid, provided that in accordance with arrangements already agreed to, between the two Governments.⁴²⁴

Nepal-China since 1951

An agreement on trade and economic development, concluded on 20 September 1956, specified the provisions to maintain economic relations between these countries.

Article Four of the treaty states:

In order to maintain and develop the traditional contacts between the Peoples of the Tibet Region of China and Nepal the High Contracting Parties agree that the nationals of both Parties may trade, travel, and pilgrimage in those places in each other's territory as agreed upon by both Parties, and the two Parties agree to safeguard the proper interests of the nationals of the other Party in its territory in accordance with the country of residence, and for the purpose the High Contracting Parties agree to do as follows.⁴²⁵

According to the "Economic Aid" agreement signed on 7 October 1956, China agreed to provide free grant to Nepal within a period of three years from the date of signing and coming into force the agreement in an amount of Indian Rupees (IRs)⁴²⁶ 60 million.⁴²⁷ The grant, according to the agreement, was one-third by installments in foreign exchange, and two-thirds in machinery, equipment, materials, and other commodities which Nepal needed and China could supply.

⁴²⁴Ibid., 189-190.

⁴²⁵Jain, 287-288.

⁴²⁶Indian Currency is called Rupees. In 1956, the exchange rate of one US\$ was Indian Rupees 4.7619, The University of British Columbia, Sauder School of Business, Pacific Exchange Rate Service, Archive, <http://fx.sauder.ubc.ca/etc/USDpages.pdf> (accessed 10 September 2010).

⁴²⁷Jain, 298.

Economic relations were further strengthened when the Economic Aid Agreement was signed in March 1960.⁴²⁸ Under this agreement, the government of China decided to willingly provide a free grant of economic aid without any conditions or privileges attached. The amount of the aid, according to Article One of the treaty, was 100 million IRs.⁴²⁹ China decided to grant this amount, and the remaining 40 million IRs were provided to Nepal under the agreement on Economic Aid of 1956, which has not yet been used by the government of Nepal, making the total of 140 million IRs.⁴³⁰

The development of economic relations got continuity and considerable importance under the friendship treaty of April 1960. Article Three of the treaty states:

The Contracting parties agree to develop and further strengthened the economic and cultural ties between the two countries in a spirit of friendship and cooperation, in accordance with the principles of equality and mutual benefit and of non-interference in each other's internal affairs.⁴³¹

Chinese assistance for infrastructure development began under a protocol concluded in September 1961. The agreement primarily concerned providing expenditures for designs, equipment, machinery, materials, and manufacturing techniques. According to this agreement, the items under the economic constructions were cement, pulp and paper factories, power plants for the paper factories, and a small-

⁴²⁸Ibid.

⁴²⁹Ibid., 310.

⁴³⁰Ibid., 311.

⁴³¹Ibid., 319-320.

scale leather and shoe factory.⁴³² Similarly, China started Araniko highway construction according to the agreement concluded in October 1961.⁴³³

The economic relations between Nepal and China were further strengthened when both countries signed the Trade Agreement in May 1964. The agreement focused on appropriate measures required to develop the trade and exchange of goods between the two countries.⁴³⁴ In order to further promote and strengthen economic and technical cooperation, Nepal and China signed another agreement on economic cooperation in December 1966. According to this agreement, the government of China agreed to provide 150 million NRs between 21 December 1966 and 31 December 1970 to the government of Nepal, a grant of aid without any conditions attached.⁴³⁵

The trade relations were promoted by the trade agreement of 1968. Both the countries agreed to conduct trade through state trading organizations of Nepal and China, as well other importers and exporters of the two countries' products. Further, the two countries granted each other the most-favored nation treatment in all matters relating to customs duties and other taxes and fees and charges of any kind to be levied on exportation and importation of commodities.⁴³⁶

⁴³²Ibid., 342-345.

⁴³³Ibid., 360.

⁴³⁴Ibid., 378.

⁴³⁵Ibid., 394-395.

⁴³⁶Ibid., 401-402.

Nepal and China exchanged notes on 30 April 1976 for an extension of ten years on the agreements on trade and transport between the Tibet Autonomous Region of China and Nepal.⁴³⁷ Both countries further strengthened their economic ties by signing an agreement on Trade and Settlement on 21 August 1981. An agreement was signed on 1 August 1986 in order to extend the validity of the trade agreement for another ten years. The Economic and Technological Cooperation signed in February 2000, further strengthened their economic relations.⁴³⁸

Nepal and China signed an agreement avoiding dual taxation and prevention from tax-evasion in May 2001. In order to further facilitate the trade between Nepal and China's Tibet Autonomous Region, an agreement was signed in July 2002. No significant agreements on economic cooperation occurred between Nepal and China during the period of 2003 to 2008, but trade activities continued. One of the significant reasons may be Nepal's government focus on counter insurgency through late 2005, and the political transition of 2007, which brought little attention on economic affairs. On 7 April 2009, the Nepal-China Executives Council and the Chinese People's Association for Friendship with Foreign Countries signed a Memorandum of Understanding with a view to attract Chinese investment in Nepal.⁴³⁹

⁴³⁷Foreign Ministry of the People's Republic of China, Asian Relations, <http://www.fmprc.gov.cn/eng/wjlb/zzjg/yzs/gjlb/2752> (accessed 23 July 2010).

⁴³⁸Ibid.

⁴³⁹Bhattacharya, "China's Inroads into Nepal."

Nepal-India since 1951

The 1950 Trade and Commerce treaty increased the economic ties between Nepal and India, and also increased reliance on India for infrastructure development. The principal provision regarding economics and commerce has rests with Articles Six and Seven of the treaty:

Each Government undertakes, in token of the neighborly friendship between India and Nepal, to give to the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development.⁴⁴⁰

The Government of India and Nepal agree to grant, on reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and privileges of a similar nature.⁴⁴¹

Nepal and India signed a Trade and Transit Treaty in 1960 that replaced the 1950 Treaty of Trade and Commerce. Under this treaty, India recognized in favor of Nepal “full and unrestricted right of commercial transit.”⁴⁴² When the 1960 treaty expired on 31 October 1970, Nepal and India concluded another mutual trade and transit treaty on 13 August 1971.⁴⁴³ The treaty incorporated provisions regarding transit facilities extended by India for Nepal’s trade with a third country, as also included provisions on cooperation to control unauthorized trade. Duty free access to Nepalese imports on a non-reciprocal basis was first given in 1971, but with a Nepalese-Indian material content

⁴⁴⁰Subedi, 4.

⁴⁴¹Ibid., 4-5.

⁴⁴²Ibid.

⁴⁴³Ibid., 108.

requirement of 90 percent. This was gradually reduced when the Trade Treaty was periodically renewed in 1993; it was reduced to 50 percent of Nepalese-Indian material content and Nepalese labor content.⁴⁴⁴

Nepal and India, instead of a single treaty like earlier, signed three different agreements in their economic relations in 1978. These treaties were modified significantly in 1991, after the advent of democratic government in Nepal. India signed two treaties on trade and transit with Nepal in 1991. The Treaty was renewed in December 1996 for an additional period of five years with provisions for further extensions of five years, at a time, by mutual consent subject to such modifications as may be agreed upon.⁴⁴⁵

The Government of India accepted a Nepalese government request for “automatic renewal” of the treaty for further seven-year periods. However, the Protocol and Memorandum to the Treaty would be subject to review and modification every seven years or earlier if warranted. The Nepalese request for an additional transit route to Bangladesh via Phulbari was accepted on 28 June 1997. Operating modalities for the transit were accordingly worked out, and the route became operational on 1 September 1997.⁴⁴⁶ A review of the trade route was held in March 1998 at the Commerce Secretary-level talks in Delhi. Several relaxations of the operating modalities, requested by the

⁴⁴⁴Gyanu Raja Shrestha “Nepal-India Bilateral Trade Relations: Problem and Prospects,” Ministry of Finance, Nepal, 27, http://www.ris.org.in/dp54_pap.pdf (accessed 9 September 2010).

⁴⁴⁵Ibid.

⁴⁴⁶Ibid.

Nepalese, were agreed too. These included a Nepalese request to keep the route open on all days of the week.⁴⁴⁷ The 1991 Treaty of Transit came up for renewal in December 1998, and following bilateral talks, a renewed Transit Treaty was signed on 5 January 1999. The renewed Treaty contains liberalized procedures for the transit of Nepalese goods.⁴⁴⁸

Nepal and India renewed the Treaty of Trade for the second time in February 2002 with some modifications; the treaty was originally signed in 1991, and was further renewed in 1996.⁴⁴⁹ A Rail Services Agreement was signed in May 2004 to extend cargo train service to the Inland Container Depot at Birgunj, Nepal. The Rail Service Agreement was modified in December 2008 to allow oil-liquid traffic in tank wagons and bilateral break-bulk cargo in flat wagons.⁴⁵⁰ The Treaty of Trade and Transit renewed in 2002, and was again renewed automatically, without change, in March 2007.⁴⁵¹ The key features of the treaty include duty free access to each other's primary products; Nepalese manufactured products are allowed access to the Indian market, free of basic customs duty; and Nepal provides a small rebate of seven percent in the customs duty for imports

⁴⁴⁷Ibid., 28.

⁴⁴⁸Ibid., 27.

⁴⁴⁹Ibid.

⁴⁵⁰Embassy of India, Kathmandu, Trade, <http://www.indianembassy.org.np/trade-and-commerce.php> (accessed 12 September 2010).

⁴⁵¹Ibid.

from India up to a duty rate of 25 percent, and rebate of 5 percent, for duty rates above 25 percent.⁴⁵²

According to the renewed treaty, India offered 15 transit routes to Nepal from the Calcutta seaport for its third country trade. The movement of goods was allowed by road or rail. India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through the Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through the Radhikapur-Birol interchange point on India-Bangladesh border.⁴⁵³

Nepal and India further strengthened their economic cooperation after the political change by signing another Trade Treaty in 27 October 2009.⁴⁵⁴ This treaty provided more access to imported Indian goods in Nepal. According to the Article Six of the treaty, “the government of Nepal shall endeavor to exempt, wholly or partially, imports from India from customs duty and quantitative restrictions to the maximum extent compatible with their development needs and protection of their industries.”⁴⁵⁵

Economic Cooperation

China and India have been providing economic assistance to Nepal. The assistance is mainly focused on developing infrastructure in Nepal (see table 5). In the

⁴⁵²Ibid.

⁴⁵³Ibid.

⁴⁵⁴Ministry of Commerce and Supplies, Government of Nepal, Bilateral Agreements, http://www.mocs.gov.np/uploads/supp_docs/84/Final%20Treaty%20of%20Trade%20English%20%202009%20October%2027.pdf (accessed 2 September 2010).

⁴⁵⁵Ibid., 2.

early years, Chinese assistance was provided in terms of projects, and no financial involvement therein was mentioned. From the mid-1960s, the Chinese government has been providing grant assistance to implement mutually-acceptable development projects. The volume of such assistance averages 80 million Yuan every year.⁴⁵⁶ Both countries have gradually increased their assistance over the years. Indian assistance, an average of 150 million IRs annually in the mid-1980s, has reached 750 million IRs in 1999-2000. India was the only country to be involved in the first five-year plan of Nepal.⁴⁵⁷ China has increased its annual assistance to Nepal by about US\$ 216,000 in 2009, which was limited to about US\$ 150,000 until 2008.⁴⁵⁸

Nepal has established a Chamber for Cooperation with India and China in the field of Commerce and Industry. The Nepal-China Chamber of Commerce and Industry was established as a Non-Government Organization in 1999 with the view to maintaining the intimate relationship with the Chinese business community through the medium of a bilateral relationship.⁴⁵⁹ The Nepal-India Chamber of Commerce and Industry was established in 1994 with a primary aim of promoting Joint venture investment and economic relations between Nepal and India.⁴⁶⁰

⁴⁵⁶Ministry of Foreign Affairs, Government of Nepal, Nepal-China Relations.

⁴⁵⁷Bharat Mohan Adhikari, "Nepal-India Economic Relations," in *India-Nepal Relation: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004), 248.

⁴⁵⁸*Tibet Sun*, "China pledges 3m USD military assistance to Nepal."

⁴⁵⁹Nepal-China Chamber of Commerce and Industry, <http://www.nepal-china.org.np/introduction.php> (accessed 3 September 2010).

⁴⁶⁰*Ibid.*

Table 5. Infrastructure Development under the Aid of China and India

Types of Projects	China Aided Projects		India Aided Projects	
	Completed	Ongoing	Completed	Ongoing
Roads	a. Araniko Highway -113 km b. Kathmandu-Bhaktapur Road-13 km d. Prithvi Highway- 174 km e. Narayanghat-Muglin Road-36.16 km f. Gorkha-Narayanghat Road- 24 km g. Kajhuwa-Gorkha Road-27.2 km h. Pokhara-Baglung Road-73 km i. Seti River Bridge at Pokhara	Syafrubesi-Rasuwigadi Road	a. Kakarbhitta-Dhalkebar 258 km b. Butwal-Kohalpur-237 km c. Kohalpur-Banbasa-203.39 km d. Bahinse-Naubise-97 km e. Naubise-Nagdhunga-17 km f. Bhattamod-Dhalkebar-43 km g. Sidhartha Highway-181.22 km h. 22 Bridges-Mahakali Highway	a. Raxual-Sirsiya Broad-Guage Rail Link b. Greater Janakpur Development (Road and other facilities)
Industries	a. Bansari Leather and Shoes Factory b. Hetauda Cotton Textile Mills c. Harisidhi Brick Factory d. Bhaktapur Brick Factory e. Industrial Gloves and Apron at Bansbari f. Bhrikuti Paper Mills g. Lumbini Sugar Mills			
Health Sector	B. P. Koirala Memorial Cancer Hospital, Bharatpur	Civil Service Hospital	B.P Koirala Health Science Dharan	Bir and Paropakar Maternity Hospital Extension, and. Kapilbastu 100 Bed Eye Hospital
Sports	a. Sports Complex-Kathmandu and Lalitpur b. Construction of Sports facilities for 8th South Asian Federation Games in 1999			
Others	a. National Trading Complex b. Warehouse at Kathmandu and Birjung c. City Hall in Kathmandu d. Birendra International Convention Center e. Consolidating Seti Bridge at Pokhara f. Pokhara Sedimentation Pond g. Provision of Television Trucks h. Mobile X-Ray Machine for Birjung Dry Port Custom Office	a. Polytechnic Institute in Banepa b. Nepal Television Metro Channel Expansion	East-West Highway Optical Fibre Project-904 km	a. 22 deep tube well irrigation systems in Jhapa, Sunsari, Saptari and Siraha. b. Polytechnic at Biratnagar

Source: Created by author using data from Ministry of Foreign Affairs, Government of Nepal, Nepal-China Relations, <http://www.mofa.gov.np/bilateralRelation/nepal-china.php>; Ministry of Physical Planning, Government of Nepal, Department of Road, http://www.dor.gov.np/road_statistic_2008/Report%20Pages/tables/208.pdf; Embassy of India in Nepal, Economic Cooperation, <http://www.indianembassy.org.np/economic-cooperation.php> (accessed 12 September 2010).

There has been a great deal of cooperation with China and India in order to run JVI in Nepal. According to the estimate of April 2008, there are a total of 30 Chinese, and 180 Indian, JVI in operation in Nepal. Out of the total 401 JVI of 46 countries providing foreign investment in Nepal, India ranks first and China ranks third after the

United States of America (see table 6).⁴⁶¹ Indian direct investment in JVI accounts for almost 36 percent of total Foreign Direct Investment in Nepal. JVI are involved in construction, manufacturing, services, tourism, and minerals. The foreign direct investment has been instrumental an uplift for the economy of the country.

Table 6. Major Foreign Investors in Nepal until 15 January 2005

S.N	Countries	Agro-based	Construction	Energy-based	Manufacturing	Mineral	Service	Tourism	Total Number of Industries	Total Cost (million Rupees)
1.	India	1	-	-	89	1	17	10	118	13468.21
2.	USA	1	-	1	13	-	23	13	51	8924.54
3.	China	-	-	1	15	-	7	7	30	1869.17
4.	Japan	4	1	-	9	-	10	20	44	1329.05
5.	South Korea	-	-	-	11	-	3	6	20	528.28

Source: Created by author using data from Mahendra P. Lama, “India and Nepal: The Intricacies of Free Trade,” *Nepal-India Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004), 285; Federation of Nepal Chamber of Commerce and Industry, <http://www.fncci.org/text/operate.pdf> (accessed 3 September 2010).

Trade Relations with China and India

Nepal maintains bilateral trade with China and India, but Nepal has a Transit Treaty only with India. Nepal’s transit trade is routed through 15 designated routes from

⁴⁶¹Adhikari, “Nepal-India Economic Relations,” 247-248 and Federation of Nepal Chamber of Commerce and Industry, [gahttp://www.fncci.org/text/operate.pdf](http://www.fncci.org/text/operate.pdf) (accessed 3 September 2010).

the Nepal-India border to the port of Calcutta, India. There are a total of 27 agreed routes for mutual trade between India and Nepal (see table 7).

Table 7. Trade Routes between Nepal and India

S.N	Agreed Routes for Mutual Trade	S.N	Transit Points to Calcutta Port
1.	Pashupatinagar-Sukhia Pokhari	1.	Sukhia Pokhari
2.	Kakarbhitta-Naxalbari	2.	Naxalbari (Panitanki)
3.	Bhadrapur-Galgalia	3.	Galgalia
4.	Biratnagar-Jogbani	4.	Jogbani
5.	Setobandha-Bhimnagar	5.	Bhimnagar
6.	Rajbiraj-Kunauli		
7.	Siraha, Janakpur-Jayanagar	6.	Jayanagar
8.	Jaleswar-Bhitamore(Sursand)	7.	Bhitamore
9.	Malangawa-Sonabarsa		
10.	Gaur-Bairgania		
11.	Birgunj-Raxaul	8.	Raxaul
12.	Bhairahawa-Nautanwa	9.	Nautanwa (Sonuali)
13.	Taulihawe-Khunwa		
14.	Krishnanagar-Barhni	10.	Barhni
15.	Koilabas-Jarwa	11.	Jarwa
16.	Nepalgunj-Nepalgunj Road	12.	Nepalgunj Road
17.	Rajapur-Katerniyaghat		
18.	Prithivipur-Sati (Kailali)-Tikonia	13.	Tikonia
19.	Dhangadhi-Gauriphanta	14.	Gauriphanta
20.	Mahendranagar-Banbasa	15.	Banbasa
21.	Mahakali-Jhulaghat (Pithoragarh)		
22.	Darchula-Dharchula		
23.	Maheshpur-Thutibari (Nawalparasi)		
24.	International Airports connected by direct flights between Nepal and India (Kathmandu-Delhi/Mumbai/Calcutta/Chennai)		
25.	Sikta-Bhiswabazar		
26.	Laukha-Thadi		
27.	Guleria-Murtia		

Source: Created by author using data from Democracy Nepal: Gateway to Nepali Politics and Civil Society, http://www.nepaldemocracy.org/documents/treaties_agreements/nep_india_open_border.htm; Federation of Nepalese Chambers of Commerce and Industry, Revised Indo-Nepal Treaty of Trade, October 2009, 15, http://www.fncci.org/downloads/nepalindia_tt_oct2009.pdf (accessed 5 September 2010).

In addition, Nepal's trade with and through Bangladesh also transits through India. The Government of India provides ongoing assistance for the development of

cross-border trade-related infrastructure along the Nepal-India border. Included are upgrades to four major customs checkpoints at Birgunj-Raxaul, Biratnagar-Jogbani, Bhairahawa-Sunauli and Nepalgunj-Rupediya to international standards; laying an oil pipeline from Raxaul to Amlekhgunj, through a joint venture between Indian Oil Corporation and Nepal Oil Corporation; upgrading approach highways to the border on the Indian side; upgrading and expanding the road network in the Terai region of Nepal; and, broad gauging and extending rail links to Nepal.⁴⁶²

Nepal and China have two designated routes for trade and transit. One route is at Tatopani, which lies on the Kodari-Kathmandu highway, and another at Nara Nangla in Humla, with a mule track from Simikot.⁴⁶³ Nepal and India have established three dry ports on the Nepalese side for the transport of goods directly to and from Calcutta. They are in Biratnagar, Sirshiya east of Birgung, and Bhairahawa. The dry port of Sirshiya provides a railway connection, via Raxaul, to the Calcutta Port of India.⁴⁶⁴ In order to enhance bilateral trade, India has recently completed trade related infrastructure close to the Nepal-India border, and China has also been constructing and planning to build similar types of facilities at the Nepal-China border (see table 8).

Nepal faced an extremely difficult situation in its trade and transit relationship with India, when India imposed tough economic sanctions in 1989-1990, which

⁴⁶²Embassy of India, Kathmandu, Trade and Commerce.

⁴⁶³Kansakar, "Nepal-India Open Border."

⁴⁶⁴Ibid.

originated mainly due to the political reason.⁴⁶⁵ The Treaty of 1971 incorporated provisions regarding transit facilities for Nepal's trade with a third country via India. In the mid-1970s, Nepal pressed for substantial amendments to the 1971 Trade and Transit Treaty, which was due to expire in 1976. India ultimately backed down from its initial position to terminate the 1971 treaty even before a new treaty could be negotiated. The 1978 agreements incorporated Nepal's demand for separate treaties for trade and transit.

Table 8. Infrastructure Development for Trade and Transit

S. N	India			China		
	Recently Completed	On Going	Under Consideration/ Planning	Recently Completed	On Going	Under Consideration/ Planning
1.	Inland Clearance Depot at Sirsiya, Birgunj-cooperation with the World Bank	-	-	-	Syfrubesi-Rasuwigadi road	A dry port near Tatopani, Nepal-China border
2.	Inland Clearance Depot, Sirsiya, Birgunj-operationalized since 16 July 2004 for the third country transit traffic	-	-	-	-	-
3.	5.3 km Raxaul- Sirsiya rail line	-	-	-	-	-

Source: Created by author using data from Ministry of Foreign Affairs, Government of Nepal, Nepal-India Relations, <http://mofa.gov.np/bilateralRelation/index.php>; Qiu Guohong, Chinese Ambassador to Nepal, "Nepal and China have win-win ties," *Nepali Times* no 448, (April 2009), 24-30, <http://www.nepalitimes.com.np/issue/2009/04/24/Interview/15892> (accessed 2 September 2010).

The treaty of 1978 was set to expire in March 1989, but due to the deteriorating political situation between Nepal and India, India put Nepal under a virtual trade seize on 23 March 1989; and India declared that the Treaties of Trade and Transit had expired.⁴⁶⁶

⁴⁶⁵Crosette, 111.

⁴⁶⁶Savada, *Nepal and Bhutan Country Studies*, 181-182.

India closed all, except two, bilateral trade routes between Nepal and India, and 13 out of 15 transit routes through India used by Nepal for its international trade.⁴⁶⁷ Because of this economic blockade, shortages of Indian imports such as fuel, salt, cooking oil, food, and other essential commodities soon occurred. The lucrative tourist industry went into a recession. In June 1990, a Joint communiqué was issued, pending the finalization of a comprehensive arrangement covering all aspects of bilateral relations, restoring trade relations, thus reopening transit routes for Nepal's imports.⁴⁶⁸

The status of Nepalese bilateral trade with India has been steadily improving. The bilateral trade between Nepal and India was US\$ 2.23 billion during Nepalese fiscal year 2006 to 2007.⁴⁶⁹ Nepal's imports from India amounted to US\$ 1643.8 million, and exports to India aggregated US\$ 591.9 million.⁴⁷⁰ During the fiscal year 2007 to 2008, Nepal's total trade with India was about US\$ 2.81 billion; Nepal's exports to India were about US\$ 594.0 million; and imports from India were about US\$ 2,222.7 million.⁴⁷¹ Since 1996, Nepal's exports to India have grown more than ten times and bilateral trade more than six times; the bilateral trade that was 29.8 percent of the total external trade of Nepal in year 1995 to 1996 increased to 63.8 percent in the year 2007-2008. Since 1995-

⁴⁶⁷Subedi, 25.

⁴⁶⁸Savada, *Nepal and Bhutan Country Studies*, 182-183.

⁴⁶⁹Nepal's fiscal year starts from 16 July and ends on 15 July of the next year.

⁴⁷⁰Embassy of India, Kathmandu, Trade and Commerce.

⁴⁷¹*Ibid.*

1996, the total external trade of Nepal has increased from NRs 9433 crores⁴⁷² to NRs. 28690 crores. The increase of nearly 81 percent is on account of increase in the bilateral trade between India and Nepal, which grew from NRs. 2808 crores in 1995 to 1996 to NRs. 18315 crores in 2007 to 2008. Nepal's exports also increased from NRs. 1988 crores in 1995-1996 to NRs. 6078 crores in 2007-2008. The increase of nearly 86 percent was on account of increase in Nepal's exports to India.⁴⁷³

The trade volume of Nepal with China has increased in the recent years. According to the data of 2006, Nepal's bilateral trade with China was US\$ 0.27 billion.⁴⁷⁴ Embassy of People's Republic of China in Nepal, writes, according to Chinese Customs authorities, the total trade volume in 2006 reached US\$ 268 million, with 36.5 percent increase over previous year.⁴⁷⁵ The total bilateral trade volume in July 2007 remained almost similar to that of 2006. Nepal imported US\$ 261 million of Chinese goods, while its exports stood at US\$ 5.9 million. The trade volume between the two countries in May 2009 was US\$ 401 million with China selling goods worth about US\$ 386 million, and Nepal exporting a mere US\$ 15 million. With a view to bridge the trade deficit, China has agreed to provide duty free access to 497 Nepali goods in the Chinese

⁴⁷²One Crore is equivalent to 10 million.

⁴⁷³Embassy of India, Kathmandu, Trade and Commerce.

⁴⁷⁴Bajpae, 105.

⁴⁷⁵Embassy of China, Kathmandu, Nepal-China Relations.

market.⁴⁷⁶ According to the letter of Ministry of Commerce of China dated 14 May 2010 to Nepal's Ministry of Commerce and Supplies:

In order to promote the economic development of your country and to strengthen the economic and trade relations between our two countries, the Government of the People's Republic of China has decided to phase in zero-tariff treatment to 95 percent of the products originated in your country and exported to China. Within 2010, 60 percent of the products will start to enjoy zero-tariff treatment.⁴⁷⁷

Remittances and Nepal's Economy

Nepal is one of the world's poorest countries, with a population of 29 million.⁴⁷⁸ It has a population of 24.7 percent below the poverty line and its unemployment rate accounts for 46 percent according to the estimate of 2008.⁴⁷⁹ One of Nepal's major exports is labor, and most rural households now depend on at least one member's earnings from employment away from home and often from abroad (see table 9).⁴⁸⁰ A recent figure shows that the size of the Nepalese labor force in the year 2007-2008 totaled 215,639 persons, an increase of 22.44 percent compared to the previous year.⁴⁸¹ According to this recent estimate, during the global recession of 2009, remittances from

⁴⁷⁶Bhattacharya, "China's Inroads into Nepal."

⁴⁷⁷Ministry of Commerce and Supplies, Government of Nepal, Nepal-China Preferential Tariff Treatment, http://www.mocs.gov.np/uploads/supp_docs/78/Letter%20of%20exchange.pdf (accessed 12 September 2010).

⁴⁷⁸US Department of State, Country Profile, Nepal.

⁴⁷⁹Central Intelligence Agency, The World Fact Book, Nepal.

⁴⁸⁰David Sedon, "Nepal's Dependence on Exporting Labor," January 2005, <http://www.migrationinformation.org/Feature/display.cfm?id=277> (accessed 13 September 2010).

⁴⁸¹The Free Library, "International migration and local development in Nepal."

foreign workers abroad increased 47 percent to US\$ 2.8 billion, while tourist arrivals only decreased one percent compared to the previous year.⁴⁸²

The 1985 Labor Act of Nepal has facilitated arrangements for Nepali migration to about a dozen specified countries. In the last decade, foreign labor migration has become a major feature of Nepal's economy and society. Approximately 700,000 Nepalese work "overseas," meaning beyond India, mainly in the Middle East, East Asia, and Southeast Asia, with about five percent of these being women.⁴⁸³ Approximately 700,000 people work in the private sector, and 250,000 in the public sector of India.⁴⁸⁴

Table 9. Remittances to Rural Households

Sources	Number of Remittances	Value of Remittances
India	40 %	33 %
Other countries (overseas)	3 %	22 %
Urban Nepal	25 %	32 %
Rural Nepal	32 %	12 %

Source: The Free Library, "International Migration and Local Development in Nepal," <http://www.thefreelibrary.com/International+migration+and+local+development+in+Nepal-a0215924572> (accessed 28 August 2010).

India has been a good source of remittances for Nepal. The annual remittances from India takes the largest share, with one estimate in 1997 being that 23 percent of all

⁴⁸²Countries of the World, Nepal Economy 2010, http://www.theodora.com/wfbcurent/nepal/nepal_economy.html (accessed 10 September 2010).

⁴⁸³Sedon, "Nepal's Dependence on Exporting Labor."

⁴⁸⁴Ibid.

Nepali households receive remittances, of which 33 percent is only from India. In rural areas, 40 percent of rural remittances were from India. In 1997, NRs 40 billion were remitted to Nepal by an estimated one million Nepali citizens working in India.⁴⁸⁵

The Gurkha soldiers have become the most secure and second largest source of foreign exchange after tourism in Nepal. Approximately 150,000 ex-servicemen of Indian security forces receive NRs 400 crore as pensions in Nepal, while NRs 100 crore get paid in India. The total amount that India has been paying to active duty and ex-servicemen amounts to NRs 1,600 crores, that is added to Nepal's economy every year.⁴⁸⁶

In addition to pensions, India's annual welfare program and development aid projects amount to approximately IRs 10 to 15 crore each from the Ministry of Defense and Ministry of External Affairs of India.⁴⁸⁷ These welfare schemes are sponsored by the Indian Ex-Servicemen's Welfare organization. At present, 16 District Soldier Boards are spread across Nepal to provide pensions and other arrangements to ex-servicemen.⁴⁸⁸

The contribution to Nepalese economy by the people employed in Hong Kong and Macau of China has not been accounted for until 2009. As the people of Nepal have been moving to Hong Kong and Macau for employment, it obviously contributes, fairly significant contribution, in Nepalese economy.

⁴⁸⁵Bhattra, "Open borders, closed citizenship," 4.

⁴⁸⁶Mehta, "Ex-Servicemen and India-Nepal Relations," 94.

⁴⁸⁷Ibid., 94-95.

⁴⁸⁸Ibid., 95.

Multiple reasons to move to India for employment have been observed as geographical closeness, language and socio-cultural affiliation, and another due to wider privileges provided to nationals of each country by Article Seven of the 1950 Treaty.⁴⁸⁹ The employment opportunity for the large section of Nepal's 46 percent unemployed population in India and contribution to the Nepalese economy through the remittances has remained one of existing and potential areas of interest of Nepal which makes Nepal to maintain closer relations with India.

Sharing and Exploitation of Water Resources

Nepal and India concluded treaties and agreements on sharing and exploitation of water resources for the mutual benefit of each country. No treaties or agreements per se, have been concluded between Nepal and China. However, China has been providing economic and technical assistance, especially in the construction of hydroelectric plants and water-based infrastructure, in Nepal.

Nepal and India have concluded altogether five treaties and agreements for sharing and exploitation of the water resources of Nepal. Water cooperation between Nepal and India began in 1920 during the British Raj.⁴⁹⁰ The Water Cooperation Treaty was designed to facilitate the construction of a canal for irrigation purposes by Great Britain on the Mahakali River, known as the Sharada River in India. Under the 1920 agreement, Nepal agreed to provide some 4,000 acres of land to the British government for the Sharada Canal Project. In return, the British government was to give Nepal land

⁴⁸⁹Subedi, 191-193.

⁴⁹⁰Ibid., 121.

equal in area that is adjacent to the Indian territory and a supply of water. It was basically a land exchange agreement concluded between the two governments, under which Nepal stood to gain some additional benefits from the project, in terms of supply of water free of charge, in return for its decision to cooperate with the British government.⁴⁹¹

The sharing of water resources between Nepal and India increased considerably after the Treaty of 1950. The letter exchanged between Nepal and India with the treaty has provided preference to India for such provisions. Paragraph Four of the letter states that:

If the government of Nepal should decide to seek foreign assistance in regard to the development of the natural resources of, or of any industrial projects in, Nepal, the Government of Nepal shall give first preference to the government or the nationals of India, as the case may be, provided that the terms offered by the government of India or Indian Nationals, as the case may be, are not less favorable to Nepal than the terms offered by any other foreign government or by other foreign nationals.⁴⁹²

The two countries concluded another agreement, the Koshi Agreement in 1954, to utilize the waters of the River Koshi, Nepal's third largest river, for the generation of hydroelectric power and irrigation mainly for India.⁴⁹³ The project was to be constructed within Nepal using a major Nepalese river and flooding Nepalese territory; Nepal would receive little in return from it as the bulk of the benefit went to India. Soon after the conclusion of the Koshi Agreement, India and Nepal concluded another agreement in 1959 relating to the Gandak irrigation and Power Project, to utilize the waters of the

⁴⁹¹Ibid., 122.

⁴⁹²Ibid., 194.

⁴⁹³Ibid., 124.

River Gandaki, the second largest river in Nepal, for the generation of hydroelectric power and irrigation.⁴⁹⁴

A newly-elected government of the Nepali Congress Party, after the restoration of multi-party democracy in Nepal, concluded an agreement with India in 1991 to build a 577-metre long afflux bund on Nepalese territory to ensure the success of an Indian hydroelectric power plant being built at Tanakpur, located on the Indian side of the India-Nepal border river using the waters of this river.⁴⁹⁵ India appeared to have started construction work on its soil in 1983, on the Takanpur barrage project to harness the water of the Mahakali River, an Indo-Nepal border river, without consulting Nepal.

Only after the Indian side realized that without constructing an afflux bund on the Nepalese side of the border, the project would be unable to deliver the desired amount of electricity or water for India, the government of India approached its Nepal counterpart in order to secure Nepal's prompt approval for the construction of an afflux bund on Nepalese soil to make the project being built on Indian soil a success. As the then-political party in power in Nepal was often characterized by critics, as a party supported and favored by India, it was perhaps the best time for India to secure Nepal's approval.⁴⁹⁶ It was against this background that the prime ministers of India and Nepal decided to conclude an agreement, without calling it an agreement, with immediate effect through an

⁴⁹⁴Ibid., 126.

⁴⁹⁵Ibid., 127.

⁴⁹⁶Ibid., 128-129.

informal document entitled “Agreed Minutes” in order to avoid parliamentary procedures of ratification of treaties and agreements.⁴⁹⁷

Nepal and India concluded yet another comprehensive treaty on sharing and exploitation of the water resources of the Mahakali River in 1996.⁴⁹⁸ However, for a number of reasons arising from the mistrust that exists between the two countries, the treaty is now basically defunct. India, on her part, tried to secure as much as possible at Nepal’s expense before and after the conclusion of the treaty. Indeed, India had secured, through the Mahakali Treaty, protection of her existing uses of waters of the river, a goal she had set to achieve from the time of the 1989-1990 crises.

Nepal and India have jointly built a number of hydroelectric projects (see table 10). These projects were mostly established with the economic assistance of India. In addition, Nepal and India have agreed to the exchange of electricity to meet the requirements of remote areas adjoining the Indo-Nepal border. Twenty transmission lines of 11, 33, and 132 kilovolts exist between the two countries. Most of them are used to supply power to remote areas in Nepal near the Indian border in neighboring areas.⁴⁹⁹ At certain locations, India also imports power to meet the requirements of such local remote areas adjoining the border where a localized distribution network is available on the Nepal side.⁵⁰⁰

⁴⁹⁷Ibid.

⁴⁹⁸Ibid., 17.

⁴⁹⁹Tantra Narayan Thakur, “India-Nepal Power Trade,” in *India-Nepal Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004). 231.

⁵⁰⁰Ibid.

Table 10. Hydropower Cooperation between Nepal and India

Scheme	Year	Capacity in megawatt
Pokhara	1968	1
Trisuli	1969	21
Kosi	1971	10
Gandak	1979	1.5
Devighat	1983	14.1

Source: Created by author using data from Tantra Narayan Thakur, “India-Nepal Power Trade,” in *India-Nepal Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004). 231.

Nepal has been assisted by China in the development of hydroelectric projects and harnessing its water resources (see table 11). Due to the geographical setting, Chinese assistance has been directed mainly towards providing economic and technical assistance to built hydroelectric and irrigational projects where no joint cooperation has been agreed to share and exploit the resources in mutual benefit. As part of promoting Nepal’s hydro-power projects, in 2008, China’s Assistant Minister for Foreign Affairs, He Yafei, pledged to provide Nepal a loan of US\$125 million and US\$ 62 million for Upper Trishuli III ‘A’ and ‘B’ respectively.⁵⁰¹ The plants would start operating in 2012.⁵⁰²

India’s interest in the water resources of Nepal has increased considerably in recent years out of a need to meet its growing energy demand for its population of more than one billion. India’s per capita energy consumption rates remain low in comparison to those of countries like the United States and China, but it is projected to surpass Japan

⁵⁰¹Bhattacharya, “China’s Inroads into Nepal.”

⁵⁰²Ibid.

and Russia to take third place by 2030.⁵⁰³ India, the world's fifth biggest energy consumer, has accounted for approximately three and half percent of the world's commercial energy demand in the year 2003.⁵⁰⁴

Table 11. Projects Completed under China's Assistance in Nepal

S.N	Hydroelectric Projects	Irrigation Projects
1.	Sunkoshi Hydroelectricity Plant-2.5 Megawatt	Multipurpose Pokhara Water Conservancy-Irrigation
2.	Sunkoshi Vicinity Electricity Transmission	-
3.	Sunkoshi-Kathmandu Electricity Line Transmission	-

Source: Created by author using data from Government of Nepal, Ministry of Foreign Affairs, Nepal-China Relations, <http://mofa.gov.np/bilateralRelation/nep-china.php> (accessed 23 July 2010).

At present, in total energy consumption--coal accounts more than half, with 14 power plants run by state-owned companies in India. Nuclear energy accounts for just three percent of India's energy consumption. Oil consumption accounts for roughly a third of India's energy use; the demand has increased six fold in the past 25 years and India now imports about 65 percent of its petroleum. India's limited domestic gas reserves spell a need for foreign dependency.⁵⁰⁵

⁵⁰³Carin Zissis, "India's Energy Crunch," Council on Foreign Relations, 23 October 2007, http://www.cfr.org/publication/12200/indias_energy_crunch.html (accessed 9 September 2010).

⁵⁰⁴India Energy Portal, "Indian energy sector: an overview," http://www.indiaenergyportal.org/overview_detail.php (accessed 6 September 2010).

⁵⁰⁵Zissis, "India's Energy Crunch."

According to an estimate in 2007, the electricity consumption in India was 568 billion kilowatt-hours, which ranked sixth in the World.⁵⁰⁶ Electricity production in India according to the estimate of 2009, was 723.8 kilowatt-hour, which also ranked sixth in the World. Nepal's electricity production, according to the estimate of 2009 was 2.6 billion kilowatt-hour, which ranked 128th in the World. The electricity consumption in Nepal is currently 2.243 kilowatt-hours.⁵⁰⁷ Recently, India has begun to focus on programs promoting renewable energy. At present, renewable energy comprises about five percent of the energy mix. The Ministry of Non-Conventional Energy Sources has set a goal of installing 10 percent of additional power generation capacity in the country through grid-connected, renewable power by 2012.⁵⁰⁸

Nepal's water resources could provide a great deal of hydroelectric power, a cheap and durable form of energy much needed by India. Nepal has 2.27 percent of the World's water resources, most of which are yet to be exploited.⁵⁰⁹ Nepal has more than 6,000 rivers, with a total annual average run-off capacity of 200 billion m³ and a storage capacity to generate 83,000 megawatt (MW) of hydropower, of which about 43,000 MW

⁵⁰⁶Central Intelligence Agency, The World Fact Book, India.

⁵⁰⁷Central Intelligence Agency, The World Fact Book, Nepal.

⁵⁰⁸Tata Energy Research Institute, New Delhi, "Policies, programmes and technologies for propagation of renewable energy," 8, <http://www.teriin.org/opet/reports/regulatory.pdf> (accessed 28 September 2010).

⁵⁰⁹Dwarika N. Dhungel, Nepal-India Water Resource Relationship: Looking Ahead, in *India-Nepal Relations: The Challenge Ahead*, ed. Rupa (New Delhi: Rupa, 2004), 177.

have been determined to be economically feasible (see table 12).⁵¹⁰ According to data of the Nepal Electricity Authority, the total installed capacity of hydropower currently amounts to 635.84 MW, whereas, the peak power demand in Nepal is 812.50 MW.⁵¹¹

Table 12. Identified Hydro-Power Potential in Nepal

River Basins	No of Sites	Identified Power Potential in MW
Sapta-Kosi	40	10, 860
Gandaki	12	5, 270
Karnali	7	24, 000
Mahakali	2	1,125
Other Southern Rivers	5	878
Total	66	42,133

Source: Dwarika N. Dhungel, “Nepal-India Water Resources Relationship: Looking Ahead,” in *India-Nepal Relations: The Challenge Ahead* (New Delhi, Rupa, 2004), 193.

The potential to generate 83,000 MW is more than the combined total hydroelectric power currently produced by the United States, Canada, and Mexico.⁵¹² For instance, a single hydroelectric power project, the Karnali Project, would have an installed capacity of 10, 800 MW, the second largest in the World.⁵¹³ India has developed considerable interests in these projects, but views third party investment in Nepal with suspicion, fearing that Nepal may become a back door for the entry of multi-nationals into India’s domestic economy. Subedi has argued that New Delhi would like to see

⁵¹⁰Ibid., 177.

⁵¹¹Nepal Electricity Authority, Government of Nepal, Annual Report 2009, 9, and 83, <http://www.nea.org.np//reports/annualReports/YjqRDwQ9E3anrep09.pdf> (accessed 9 September 2010).

⁵¹²Subedi, 17.

⁵¹³Ibid.

Kathmandu acting in a way that would also benefit India if any gigantic projects like Karnali were to be implemented.⁵¹⁴

The series of agreements concluded between Nepal and India to exploit the water resources, perhaps is one of the most hotly-contested issues, interconnected with political and economic dimensions, of current Nepal-India relations. Subedi has further argued, with regard to the sharing and exploitation of Nepal's water resources, that the Nepalese take the view that India is keen to exploit Nepal's hydro-power potential to its advantage. The opinion of the Nepalese people is based partly on Nepal's experience with the Koshi and Gandak projects in the early 1960s, under which India secured disproportionate benefits to Nepal's detriment. It was as a result of this hang-up of the past that led to the insertion of a clause, at the insistence of all nationalist forces within Nepal, in the new Constitution of Nepal of 1990, requiring a two-thirds majority in parliament to ratify a treaty dealing with the exploitation of Nepal's water resources.⁵¹⁵ This is one of the issues that have made people of Nepal suspicious about too much Indian involvement in Nepal.

⁵¹⁴Ibid.

⁵¹⁵Ibid.

CHAPTER 7

ANALYSIS AND CONCLUSIONS

The objective of this study was to analyze Nepal's options for managing future relationships with both India and China. To do this, information was analyzed through the processes of descriptive and analytic consideration of Nepal's unique geographical characteristics in relation to presentation and examination using the DIME framework of national power. The resulting information was then examined for the purpose of considering Nepal's options: should Nepal lean towards India, China, or choose to follow a middle path in-between them?

Since the initial insurgency of 1996, Nepal has undergone a series of remarkable changes which include armed conflict attracting world attention, direct rule by the king, the signing of the CPA ending the ten years of violent conflict, the declaration of Nepal as a secular Federal Democratic Republic, abolition of the monarch, and the rise of the Maoist to power in 2008. These changes have resulted in new dynamics in Nepal's relationships with its powerful neighbors, India and China.

Geographically, Nepal falls under the Indian Sub-continent. It constitutes a narrow strip across the northern frontier of India. Given its location in the southern flanks of the Himalaya, Nepal is virtually landlocked with India, dependent on India for access to the sea and the international market. No doubt, Nepal has a long border along the Tibet region of China, and has a small portion of its territory trans-Himalayas. Nevertheless, the border terrain between Nepal and China is too difficult that for all practical purposes, India has remained the only "easily accessible" neighbor.

Due to the geographical setting of Nepal, it appears the economic and informational activities between Nepal and India will remain interconnected as the wide range of economic activities has been facilitated by geography. Nepal has been relying on India for its trade and for international trade and transit over the years, using 15 transit routes via India to reach the nearest Indian sea port, Calcutta. The existing 22 mutual trade routes between Nepal and India are also another example of Nepal's dependence on India, for its trade, created by the geographical setting.

Foreign Direct Investment has remained a primary source of economic development in Nepal. India ranks as the first donor country to Nepal, next to the United States and China. This again has been facilitated by geographical closeness, as it provides a cost-friendly environment in terms of cost-benefit analysis. Nepal significantly benefits from the assistance provided by India, in terms of infrastructure development, due to its low cost.

Economic cooperation between Nepal and India appears to be multi-dimensional. The treatment given to the nationals of one country in the territories of the other is the same, according to the 1950 treaty. This has opened various options to engage in all kinds of governmental, non-governmental, and private sector activities between the two countries. In addition to the geographical factor, economic cooperation has remained the principal reason for the range of education, migration, tourism, employment, joint-venture industries, exploitation of water resources, public-private partnership, and private sector investment activities between Nepal and India over the years. The socio-cultural similarities are also a contributing factor in creating a work-friendly environment contributing to the cooperation between Nepal and India.

Although Chinese economic assistance to Nepal has remained significant, the geographical complexity of the Himalayan Range can never relieve Nepal of its dependency on India for all practical purposes. Chinese economic assistance has been primarily focused on enhancing “diplomatic goodwill” so that Nepal will respect China’s policy interests, as China desires Nepal to act favorably to their policies.

There remains potential key area of interests between India and China in Nepal. The exploitation of Nepal’s water resource for the mutual benefit of Nepal and India appears to be a key issue after security. India has remained as a pro-active investor in Nepal’s water resources, and its ongoing interests could help India secure one of the main sources to meet its growing energy demand. The investment in Nepal’s water resources to generate hydropower for mutual benefit is not only cost-friendly to India, but could also provide irrigational benefit for its relatively huge northern agricultural states.

Another prime concern of India in Nepal, has remained the “mutual security” issue. India considers Nepal to be obliged to cooperate, in all matters pertaining to defense, as signified by the treaty of 1950, and the Arms Agreements of 1965. This assumption is based on keeping Nepal under the Indian security framework, limiting Chinese influence so that it does engage in any security agreements with China, and maintaining Nepal’s cooperation with India. This concern could be discerned by India’s economic embargo of 1989, when Nepal purchased weapons from China.

India’s security concern goes even beyond by limiting the activities of other countries, which India believes, could provide flexibility and freedom to open a door for Nepal to establish possible, security agreements with China in the future thereby limiting India’s role in Nepal as provisioned in the treaties. A situation, could be considered,

relatively similar in nature, but not on the same scale as that of 1989, as was observed during the Maoist insurgency, when the United States and United Kingdom provided military hardware and training to Nepal's Army. Furthermore, Indian worries substantially increased when the United States announced military aid to Nepal for the years 2005 and 2006. The military hardware assistance opened by China in 2005, following the aid provided by the United States and United Kingdom, further fueled a deep concern within the Indian security matrix.

The increasing foreign involvement was not a comfortable matter for India. The inspection of a cargo plane by Indian officials, at the Indian Airport, carrying military hardware to Nepal supplied by the United State in 2004, and later released as the result of the United States diplomatic involvement could be considered, symbolically, as an act of Indian irritation. Such developments could be one of the primary reasons, which led India to become increasingly active in finding ways of solving the Maoist insurgency in Nepal, by moving closer to the Maoist, even when India was aware of the Maoist' anti-Indian agenda, and the existing Maoist problem within its own homeland.

Nepal should clearly prioritize its national interests and adopt a policy in managing its relationships with India and China, that best preserves and promotes her national interests. As the country has recently undergone political transformation, such national interests could be: security, internal stability, economic development, and establishing a sound democratic mechanism. In the mean time, Nepal needs to understand the role of India and China from the DIME perspective within their geographic position and to the military and economic rise of India and China in the region.

Security from external and internal threat as well as political stability is deemed to be primary concerns for Nepal. As the rivalry between India and China continues unresolved since the Sino-Indian war, it appears that both of those countries will keep a vigilant eye on Nepal. Such vigilance is further enhanced by the possibility of future conflicts due to the increasing military power of both countries, the increasing Chinese interests in the countries surrounding India, and India's attempts to limit Chinese influence in them. In this environment, on one hand, the activities of India and China in Nepal have been directed to counter each other's DIME influences. Their presence pressures Nepal to comply with their interests, but on the other hand, it also endangers Nepal's sovereignty as this military competition continues to grow. In order to preserve its long term security, it is necessary for Nepal to understand the sensitivity of India and China in terms of their security related issues and adopt policies wisely, following a middle path, that respects the interests of both neighbors without endangering its own sovereign and independent position.

The maintenance of political stability for sustainable peace warrants greater attention in the changed political context of Nepal. The way to promote stability in Nepal lies on strengthening their democratic institution and mechanisms. Nepal should manage its internal political situation, and establish good democratic practices by narrowing the differences amongst the political parties, so they work jointly on national issues that help to promote conditions for such stability. Given the role of India in the political transformation of Nepal over the years, India being the largest open democratic system, can serve as an example for Nepal to establish stable democratic mechanisms. In addition, the growing strategic partnership between India and the United States in the

recent years, the continuous support of the United States Government in the overall development effort of Nepal, could help to preserve and promote Nepal's vital national interests. Furthermore, given the historic ties of Nepal's major political parties with India, the diplomatic and non-diplomatic involvement of India in establishing conditions in order to institutionalize democratic values, and to bring political stability, has been observed as an asset to mature the democratic practices and political institutions of Nepal. In contrast, China has always expressed that Nepal is capable of solving its own internal problems, and has largely kept itself out of the Nepalese political affairs.

Another vital national interest of Nepal has been the economic development, which ultimately helps to promote stability. Nepal has benefitted from the economic assistance of both India and China, and considering the economic rise of both countries such assistance could provide substantial benefits in the future. However, given the scope of economic relations of Nepal to India over the years, and the former's dependency on India's increasing economic liberalization policy, integrating into the world's economic system, further cooperation is likely to contribute to enhancing economic development into the foreseeable future. In addition, the rise of India, which has increasingly become an accepted fact, can be a vital asset for a country like Nepal for its economic development. Cohen argues that:

There is an economic revolution brought about by India's reasonably successful accommodation of the forces of globalization, which was facilitated by a change of economic policy in the early 1990s--a change that was fostered by Prime Minister Manmohan Singh when he was Finance Minister. . . . Coupled with other internal transformations, India is, in my judgment, one of the most revolutionary societies in the world, and with several important exceptions, these revolutions are proceeding peacefully. In 1978, I published *India: Emergent Power?* It pointed to India's rise, but noted its failure to address the economy and its persistent conflict with Pakistan as factors that held India back. Twenty-three

years later, my book on India did not have a question mark in its title. India's rise as a global power in the 21st century is all but certain.⁵¹⁶

Furthermore, considering the extent of India's investment in Nepal's hydropower, there remains ample scope for cooperation in harnessing water resources of Nepal benefiting both the countries provided Indian investment policies are transparent, and benefits distributed equitably.

As China greatly increased its activities in Nepal after the political change of 2007-2008, some envisioned Nepal moving towards China. It would be wise on the part of Nepal to take into consideration the time and scope of China's involvement in relation to the intensity and significance of its involvement in the recent past. China has realized that monarchical rule was a reliable institution for maintaining relations that respected China's major concerns, for almost four decades. Given the unresolved issue of Tibet since 1959, political instability in Nepal, and China's rivalry with India, China was desperately looking for a dependable substitute in the aftermath of the monarch's abolition. China never approached Nepal for a closer relationship by contacting the political parties in Nepal during the monarchical rule. Given the close relationship of some political parties of Nepal with India, China could have assessed that the Maoist could be the reliable force in Nepal to preserve its interests when they became victorious in the CA election.

The Maoist were not only anti-Indian, they were anti-Western too. Since the inception of their movement, they effectively succeeded to power by using various means

⁵¹⁶Cohen, "More Than Just the 123 Agreement: The Future of US-India Relations," 25 June 2008, http://www.brookings.edu/testimony/2008/0625_india_cohen.aspx (accessed 21 October 2010).

through Indian assistance as India was trying to limit the monarchy's role in Nepal given the close relations it had maintained with China over the years. China, who was providing support to the king's rule to fight the Maoist, with no evidence supporting a link to the Maoist, immediately, tried to seize the opportunity and establish a timely hold providing extensive support to the Maoist government through the DIME instruments of national power.

No doubt, given the economic rise of China, Nepal could get enormous benefits, but Nepal needs to evaluate its DIME realities from the historical perspective vis-à-vis promoting its national interests, and that warrants a wider consideration. In addition, Nepal's Geographical setting is a factor in all elements of DIME, and limits Nepal's freedom to choose its leaning towards China or India.

It appears that the underlying issues between Nepal and India do not pose serious challenges in their relations. Most problems could be resolved comfortably if the political leadership of both countries work together with a positive commitment. It would be highly beneficial for Nepal to have issues addressed timely that can provide a dynamic and prosperous environment to further strengthen its diplomatic relations with India. Yet, given the rise of India, how do the relations between India and other Asian, especially South Asian nations, prosper will largely be shaped by Indian policies and their "diplomatic standard." Kanti Bajpai, who teaches at Jawaharlal Nehru University, and is also a member of the Core Group for the Study of National Security, at the same University, writes:

The future of South Asia will depend in a large part on India. As the largest country in the region, its choices and actions will condition the policies of its neighbors and of the nonregional powers that have a stake in the subcontinent.

India's policies are likely to affect actors well beyond South Asia as well. India's choices and actions will affect the life chances of over one billion Indian and perhaps another two billion people around its periphery from Afghanistan and Pakistan in the west, to Nepal and China in the north, to Bangladesh and Burma in the east, and a number of other countries in the Asia-Pacific and Indian Ocean littoral.⁵¹⁷

It would be highly beneficial for India too, if she conducts her external affairs, positively and matures the "standard of diplomatic dealing," towards her smaller neighbors. This could contribute to extracting goodwill and considerable willing respect by pulling surrounding neighbors towards India, which would substantially, facilitates to establish its desire as a regional power and assist in lessening China's influence, "perceived and potential."

In addition, it would be wise on the part of international leadership to have a wider understanding of the domestic-diplomatic dynamics of such an emerging regional power vis-à-vis regional issues, and should deal carefully. Crossette, writes:

India, first and foremost, believes that the world's rules don't apply to it. Bucking an international trend since the Cold War, successive Indian governments have refused to sign nuclear testing and nonproliferation agreements--accelerating a nuclear arms race in South Asia. (India's second nuclear tests in 1998 led to Pakistan's decision to detonate its own nuclear weapons.)⁵¹⁸

Crossette, further writes what a high commissioner of Canada in New Delhi from 2006 to 2008, David Malone, stated:

⁵¹⁷Kanti Bajpai, "Indian Strategic Culture," in *South Asia in 2020: Future Strategic Balances and Alliances*, ed. Michael R. Chambers (Pennsylvania: US Army War College, Strategic Studies Institute, 2002), 245.

⁵¹⁸Crossette, "The Elephant in the Room: The biggest pain in Asia isn't the country you'd think," *Foreign Policy* (January-February 2010), http://www.foreignpolicy.com/articles/2010/01/04/the_elephant_in_the_room?page=full (accessed 11 October 2010).

When it comes to global negotiations, “There’s a certain style of Indian diplomacy that alienates debating partners, allies, and opponents.” And looking forward? India craves a permanent seat on the UN Security Council, seeking greater authority in shaping the global agenda. But not a small number of other countries wonder what India would do with that power. Its petulant track record is the elephant in the room.⁵¹⁹

The regional issues may seem lesser in scale, and intensity, but it may have far-reaching implications on regional and global security, relying completely on India as an emerging regional power may not contribute in the achievement of overall global policy. Furthermore, the “diplomatic maturity,” methods, and policies adopted by this emerging regional power to manage regional issues should also be considered by the international leadership. Otherwise, it might provide an advantageous position the other competing regional power, China, to further expand its influence and likely aggravate the overall situation of Asia and South Asia in particular.

Considering the diplomatic, informational, and economic elements of DIME, it underlines that leaning towards India provides opportunities and advantages that contribute to enhance Nepal’s capability to preserve and promote its national interests. Whereas, the military elements of the DIME need a wise, careful, and critical focus, keeping a middle path could help Nepal set conditions to preserve its sovereignty. However, Nepal should not completely overrule the importance of maintaining diplomatic, informational, military, and economic relationship with other countries because if a situation similar to that of 1989 occurs, and given China’s policy of “non-interference,” Nepal could at least effectively present its position in the international

⁵¹⁹Ibid.

forum by using diplomatic means and could resolve the crises with the diplomatic initiative of the key global leadership.

Keeping in view the dynamics of Nepal's relationships with India and China from historical perspectives, geographical settings, and looking extensively from the DIME instruments of national power, only one conclusion is clear. Nepal must use her hard-won position within this triangle carefully and wisely. She must choose her future path by negotiating and managing the relationships with India and China in these changed political contexts. She must maintain a sharp focus on serving her national interests, promoting stability and prosperity, preserving sovereignty and independence, and uplifting the economic standards of Nepal, even as she balances the interests of two powerful next-door neighbors, China and India.

APPENDIX A

THE 1950 INDIA-NEPAL TREATY OF PEACE AND FRIENDSHIP

The Government of India and the Government of Nepal, recognizing the ancient ties which have happily existed between the two countries for centuries; Desiring still further to strengthen and develop these ties and to perpetuate peace between the two countries; Have resolved therefore to enter into a Treaty of Peace and Friendship with each other and have, for this purpose, appointed as their plenipotentiaries the following person, namely,

The Government of India:

His Excellency Shri Chandreshwar Prasad Narain Singh, Ambassador of India in Nepal.

The Government of Nepal:

Maharaja Mohan Shamsher Jang Bahadur Rana, Prime Minister and Supreme Commander-in-Chief of Nepal, who, having examined each other's credentials and found them good and in due form have agreed as follows:

Article I: There shall be everlasting peace and friendship between the Government of India and the Government of Nepal. The two Governments agree mutually to acknowledge and respect the complete sovereignty, territorial integrity, and independence of each other.

Article II: The two Governments hereby undertake to inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two Governments.

Article III: In order to establish and maintain the relations referred to in Article I the two Governments agree to continue diplomatic relations with each other by means of representatives with such staff as is necessary for the due performance of their functions.

The representatives and such staff of their staff as may be agreed upon shall enjoy such diplomatic privileges and immunities as are customarily granted by international law on a reciprocal basis:

Provided that in no case shall these be less than those granted to persons of a similar status of any other State having diplomatic relations with either Government.

Article IV: The two Governments agree to appoint Consuls-General. Consuls, Vice-Consuls and other consular agents, who shall reside in towns, ports and other places in each other's territory as may be agreed to.

Consuls-General, Consuls, Vice-Consuls and consular agents shall be provided with exequaturs or other valid authorization of their appointment. Such exequatur or

authorization is liable to be withdrawn by the country which issued it, if considered necessary. The reasons for the withdrawal shall be indicated wherever possible.

The persons mentioned above shall enjoy on a reciprocal basis for all the rights, privileges, exemptions and immunities that are accorded to persons of corresponding status of any other state.

Article V: The Government of Nepal shall be free to import, from or through the territory of India, arms, ammunition or warlike material and equipment necessary for the security of Nepal. The procedure for giving effect to this arrangement shall be worked out by the two Governments acting in consultation.

Article VI: Each Government undertakes, in token of the neighborly friendship between India and Nepal, to give the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory, and to the grant of concessions and contracts relating to such development.

Article VII: The Government of India and Nepal agree to grant, on a reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and other privileges of a similar nature.

Article VIII: So far as matters dealt with herein are concerned, this Treaty cancels all previous Treaties, agreements, and engagements entered into on behalf of India between the British Government and the Government of Nepal.

Article IX: This treaty shall come into force from the date of signature by both Governments.

Article X: This treaty shall remain in force until it is terminated by either party giving one year's notice.

At a press Conference in New Delhi on 3 December 1959 Prime Minister Mr Jawaharlal Nehru disclosed that letters were exchanged along with the signing of the treaty which has been kept secret. Done in Duplicate at Kathmandu this 31st day of July 1950.

(Sd.)
CHANDRESHWAR PRASAD
NARAIN SINGH
For the Government of India

(Sd.)
MOHUN SHAMSHER
JANG BAHADUR RANA
*For the Government of Nepal*⁵²⁰

⁵²⁰Surya P. Subedi, *Dynamics of Foreign Policy and Law: A Study on Indo-Nepal Relations* (Oxford, New Delhi: Oxford University Press, 2005), 191-95.

APPENDIX B

THE 1960 CHINA-NEPAL TREATY OF PEACE AND FRIENDSHIP

Article I: The Contracting Parties recognize and respect the independence, sovereignty and territorial integrity of each other.

Article II: The Contracting Parties will maintain and develop peaceful and friendly relations between the People's Republic of China and the Kingdom of Nepal. They undertake to settle all disputes between them by means of peaceful negotiation.

Article III: The Contracting Parties agree to develop and further strengthen the economic and cultural ties between the two countries in a spirit of friendship and cooperation, in accordance with the principles of equality and mutual benefit and of non-interference in each other's internal affairs.

Article IV: Any difference or dispute arising out of the interpretation or application of the present treaty shall be settled by negotiation through normal diplomatic channels.

Article V: This present Treaty is subject to ratification and the instruments of ratification will be exchanged in Beijing as soon as possible. The present Treaty will come into force immediately on the exchange of the instruments of ratification and will remain in force for a period of ten years. Unless either of the Contracting Parties gives to the other notice in writing to terminate the Treaty at least one year before the expiration of this period, it will remain in force without any specified time limit, subject to the right of either of the Contracting Parties to terminate it by giving to the other in writing a year's notice of its intention to do so.

Done in duplicate in Kathmandu on the twenty-eight day of April 1960, in the Chinese, Nepali and English languages, all text being equally authentic.⁵²¹

⁵²¹R. K. Jain, *China South Asian Relations: 1947-1980*, 320-21.

APPENDIX C

12-POINT UNDERSTANDING BETWEEN SPA AND CPN-M

1. At present all Nepalese desire peace, democracy, prosperity, social progress and independent and sovereign Nepal. To achieve this goal, we fully agree that the autocratic monarchy is the main obstacle. We are in clear agreement that peace and prosperity of the country is quite impossible without ending autocracy and establishing absolute democracy. Hence, all anti-regressive forces have come to an agreement to focus their attack against the autocratic monarchy independently, and bring it to an end by intensifying the ongoing democratic movement across the country.
2. The seven-party alliance is fully convinced that sovereignty and executive right of the people can be reestablished through the reinstatement of parliament (on the basis of people's movement); formation of all-party government with full executive power; talks with the Maoist and election to the CA. Whereas CPN-M believes that people's sovereignty can be established through formation of an interim government formed after a national conference of agitating democratic forces, which will oversee the election to the CA [This is the only point of divergence, so to speak, between the seven-party alliance and the rebels]. Both of us agree to continue negotiation and dialogue to reach common agreement in these procedural issues. However, we have agreed that people's movement is the only way to attain our agreed goals.
3. The nation has demanded constructive end of the present-armed conflict and establishment of a lasting peace. Thus, we are fully committed to end autocratic monarchy and establish lasting peace through election to CA. In this regard, the CPN-M expresses its commitment to move into new peaceful political line. After ending the autocratic monarchy, we have agreed that the United Nations or a dependable international body to ensure free and fair election to the CA will supervise the arms of both the Royal Nepalese Army and the Maoist. Both parties have also agreed to accept the results of the elections. We also expect an involvement of a credible international community in the dialogue process.
4. CPN-M has expressed firm commitment to acceptance of competitive multiparty system, fundamental rights of the people, human rights, and rule of law, and democratic principles and values and to act accordingly.
5. CPN-M has agreed to create conducive atmosphere to allow all leaders and cadres affiliated to other democratic forces and common people, who were displaced from home during the conflict, to return to their respective places with full respect. The Maoist have also agreed to return the houses and physical properties of people and party cadres seized

unjustifiably. People will be allowed to take part in political activities without any hindrance.

6. CPN-M has also agreed to criticize itself for its past mistakes and has expressed commitment not to repeat them in future.

7. Parties will introspect on their past mistakes and they have expressed commitment not to repeat such mistakes in future.

8. During the peace process, human rights principles and freedom of press will be fully respected.

9. The municipal and parliamentary polls which have been pushed forward with the malicious intention of deceiving people and the international community, and to legitimize the king's autocratic and unconstitutional rule will be boycotted and made unsuccessful.

10. People, representatives of people and political parties are the real bulwark of nationalism. We are committed to protecting our independence, national unity and sovereignty, and safeguarding geographical integrity. It is our responsibility to maintain cordial relationship with all nations in the world--especially with our neighbors, India and China--based on the principle of peaceful co-existence. We appeal to all patriotic Nepalis to be wary of the Mandale brand of nationalism preached by the monarch and his sycophants to protect their rule and interest. We also appeal to the Nepali people and international community to provide help to our Loktantrik movement.

11. We also appeal to all people, civil society members, professional communities, various sister organizations, journalists and intellectuals to participate actively in the people's peaceful movement launched under the common agreement based on democracy, peace, prosperity, social transformation, and the nation's sovereignty.

12. The parties and Maoist have also agreed to probe into past incidents and take action against the guilty. In future, if any problem occurs among political parties, the concerned high level leaders shall discuss and settle the issues amicably through dialogue.⁵²²

⁵²²Nepal Research: Website on Nepal and Himalayan Studies, Unofficial English translation of the 12-point understanding between the SPA and Maoist, 21 November 2005, http://www.nepalresearch.com/coup_2005/papers/Maoist_parties_agreement_051122.pdf (accessed 25 May 2010).

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Fort Leavenworth, KS 66027-2301

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